#3.57

Walter Lichtenstein
July 18, 1939.

ESSAYS AND ADDRESSES

ON

ECONOMIC QUESTIONS

ESSAYS AND ADDRESSES

ON

ECONOMIC QUESTIONS

(1865—1893)

WITH INTRODUCTORY NOTES

(1905)

BY THE RIGHT HONOURABLE

VISCOUNT GOSCHEN

LONDON
EDWARD ARNOLD
41 AND 43 MADDOX STREET, BOND STREET, W.
1905

PREFACE

The collection of Essays and Addresses contained in this volume may be described with sufficient accuracy as 'On Economic Questions,' for they treat of banking, currency, commercial crises, the distribution of trade-profits, the effects of joint-stock enterprise, of 'Laissez-faire' and Government interference, and cognate topics, all of which have interest for the economic student; but they were not composed from the point of view of a trained and scientific economist. To the latter title I have never been able to lay a claim. Throughout my treatment of this class of subject I have regarded them from the standpoint of a practical man of business, or of a public servant anxious to inquire into financial, economic, and social facts with a view to their bearing on matters of administration or legislation, rather than as an exponent of systems of Political Economy or as the adherent of any special school of thought. I have given more study to the examination and classification of facts than to the investigation of the more abstruse problems of political economy, and it has been on the analysis of complicated phenomena that I have bestowed most attention in my excursions into the domain of economics.

My first excursion in this direction was my treatise

on *The Theory of Foreign Exchanges*, published in 1863. I was at that time at the head of a large City firm mainly engaged in international banking, and enjoyed the opportunity of studying practically what to many men other than experts are apt to seem extremely intricate problems, too deep for the ordinary understanding. Gratitude for the training which I received at my old University, whose teaching is too often denounced as unpractical and as not qualifying men for the business of life, prompts me to place on record that I have always attributed such ability as I possessed in respect of dissecting complex monetary phenomena into their simple elements, and of presenting them in clear and intelligible phraseology, to the various mental processes through which I was put at Oxford. I 'construed' commercial documents; I subjected bills of exchange to logical scrutiny; I discerned in them as they daily came under my notice, not simply instruments in the ordinary transactions of my firm, but records, well worthy of scientific and systematic study in a survey of the laws of the money-market and of international commerce. To trained men of business, at once experienced and thoughtful, the work contained little that was new: indeed a well-disposed but outspoken critic in my own family expressed frank surprise at the success of the book—it dealt with such everyday operations and with such obvious laws. Yet the work passed through many editions, and was translated into many languages. Its success was due to a popular analysis of the seemingly abstruse. The main contents of the

present volume, so far as they are not historical, are the results of the application of a similar process.

It will be seen from my frequent allusions to the necessity for the rigorous employment of this method, especially in the case of statistics, what great weight I attach to constant, industrious dissection of figures. If in the perusal of the following pages it should be thought that occasional presentments of somewhat antiquated materials are an anachronism, I trust my plea may be accepted, that, as illustrations of economic analysis, they may retain some little value.

When I wrote *The Theory of Foreign Exchanges*, I had read extremely little Political Economy except Aristotle and John Stuart Mill, and I have never been a regular student of the literature of the science. Such views as I have formed, and such work in this department of knowledge as I have been able to place before the public, have been, in the main, the results of individual study, observation, and analysis. I feel it incumbent on me, whilst taking the bold course of republishing addresses on economic subjects written and delivered for special occasions, and not as taken from a storehouse of well-thought-out and consistent theory, to make this confession and explanation, so that the reader may not expect such scientific or elaborate treatises as the title might imply.

The essays and addresses contained in this volume range, as regards the date of their composition, between 1865 and 1893. They are not arranged chronologically, but are grouped according to the subject-matter. The

four first are descriptive of episodes in banking, monetary, and currency history. They are followed by two addresses dealing with the conditions and prospects of trade twenty years ago—with some special reference to Colonial markets premonitory of the present phases of the Colonial question—and with the distribution of profits and the proportionate growth of income, attaching to different classes of the community. The last three belong more specifically to that branch of Political Economy which deals with the application of economic laws to the various aspects and requirements of social life in special relation to the claims and influence of ethical considerations.

The essays and addresses are republished [1] without any omissions of substance. They contain in an unvarnished, unrevised form opinions to which I have given utterance on various subjects during the last forty years. I have resorted to curtailment in cases of redundancy or of illustrations of temporary interest, superfluous to the reader of to-day. Where it appeared desirable, I have freely corrected obscure passages (mainly in the *spoken* addresses), but I have absolutely refrained from any correction which would modify the sense of any view expressed.

I have prefixed in every case an Introductory

[1] The addresses on 'The Condition and Prospects of Trade,' on 'Laissez-faire and Government Interference,' and on 'Insurance: Voluntary or Compulsory?' were printed in a collection of addresses on educational and economic subjects published by Mr. Andrew Elliot, of Edinburgh, in 1885.

Note, and in some instances I have added a Supplemental Note, with the object of bringing the light of the present day to bear upon these studies of the past, and of tracing either the continuity or the divergence of influences which were conspicuously operative in earlier days. In one instance, where statistics played an important part, I have brought the statistics up to date; in others, I have briefly carried forward the history of the movements described, or pointed to the contrasts between prevalent opinions at different dates. This task had to be performed within limits which prevented any great elaboration, but it is hoped that such comparisons may not be without some interest.

I have not attempted to exclude a certain personal note from the fresh matter which I have included in this volume. If the examination of the successive developments traceable to past phases of commercial and social history of which I have been an eye-witness should appear to have, in some respects, the character of an autobiographic retrospect, I trust I am not wrong in my impression that such retrospects on the part of those who have been its servants are not always unwelcome to an indulgent public.

Sept. 1905.

CONTENTS

SEVEN PER CENT.

TWO PER CENT.

OUR CASH RESERVES AND CENTRAL STOCK OF GOLD.

THE DEPRECIATION OF SILVER.

THE CONDITION AND PROSPECTS OF TRADE.

THE INCREASE OF MODERATE INCOMES.

LAISSEZ-FAIRE AND GOVERNMENT INTERFERENCE.

ETHICS AND ECONOMICS.

INSURANCE: VOLUNTARY OR COMPULSORY?

SEVEN PER CENT.

Introductory Note.

The two first articles in this volume, 'Seven per cent.' and 'Two per cent.,' form two companion pictures portraying some notable scenes from the history of City finance in the course of the sixties, a period of violent fluctuation between extreme excitement and deep discouragement for the business world. Tempestuous and reckless activity was followed by prolonged and almost unparalleled reaction. The years 1863 and 1864 witnessed an extraordinary expansion of the principle of Limited Liability. The Joint-Stock Companies system invaded every department of banking, commerce, and industrial enterprise; and this movement, with other circumstances described in the first article, landed the money-market in an average rate of interest of seven per cent. for the year 1864. Before I resumed my pen to review the monetary position during the year 1867, credit had suffered a terrible breakdown, the effects of which were so prolonged, and paralysed business to such an extent, that, in the absence of all enterprise on the one hand and the prevalence of universal distrust on the other, the rate of interest during 1867 had sunk to two per cent.

Forty years separate us from the culminating year of that stormy decade. Experience has thrown light upon the permanent working of some of the forces which were then comparatively in their early growth. The mental attitude of the business world towards

some of the conditions which then prevailed has undergone much change. Salutary lessons have been taught, and part of their teaching, though not all, has not been forgotten. But are we so remote from the crises both of recklessness and reaction which were traversed in those days as to deprive contemporary records, which defined their character, of interest to the man of to-day? I think not. As a mere matter of history, they may possibly deserve attention; but apart from history, it may possibly be found that these records deal with subjects which have been under continuous discussion ever since, and have scarcely less bearing on the present world of business than they had in the times with which they were concerned.

Conspicuous amongst these questions are the constitution of the Bank of England and our currency laws. I was a director of the Bank of England in 1865, and a great part of the article which I wrote in that year was a defence of our currency system then in force. The main principles which I defended then I still hold to-day, though, as Chancellor of the Exchequer in 1888, I contemplated some modification in the laws; and I rejoice to think that amidst all the changes and chances of business life 'the Old Lady of Threadneedle Street,' as the Bank of England used to be called, has justified the principles which were committed to her guardianship by the Bank Charter Act of 1844. The enormous development of joint-stock banks has altered her position as regards actual banking, but as regards what is technically called the Issue Department—the department connected with our currency—the Bank of England stands precisely where she stood after the legislation of 1844.

In order that laymen in such matters may more easily grasp the argument in the following pages, it may be expedient to state briefly here the cardinal conditions under which the Bank of England acts.

It is authorized to issue a certain amount of bank-notes against Government securities, apart from its store of gold. This is called 'the fiduciary issue.' Beyond that amount every note must be represented by gold. Of course the underlying principle is that the holder of every note can present it at the Bank, and demand gold in exchange. The amount authorized by law to be issued against Government securities, over and above the stock of gold in the vaults of the Bank, is the proportion of the total issue which may be expected always to remain in the hands of the public, and never to be presented for exchange into gold. The sum fixed in 1844 was £14,000,000. The only addition made during the last sixty years to the amount which the Bank issues against securities alone, has been an amount equivalent to two-thirds of the 'lapsed issues' of country banks[1], the principle being that, if these banks ceased from any cause to continue their issue, a portion of the notes thus with-drawn from circulation might safely be replaced by

[1] At the passing of the Act of 1844 the currency included, as it does still, a certain amount of notes issued by country banks. Since 1844, £4,450,000 has been added to the 'fiduciary issue' of the Bank of England under this clause, but a larger amount of private issues has lapsed. The figures are as follows:—

Total of fixed issues under the Act of 1844.		Total of fixed issues and surviving Banks in 1905.	
	£		£
Bank of England . .	14,000,000	Bank of England . .	18,450,000
207 private banks . .	5,153,417	16 private banks . .	656,512
72 joint-stock banks .	3,478,230	18 joint-stock banks .	1,099,440
Total	£22,631,647	Total	£20,205,952

Bank of England notes not represented by gold. Otherwise at the present time, with transactions multiplied almost beyond belief, the laws governing the circulation practically remained unchanged. The total of the fiduciary issue of the Bank of England and of the private banks together is about £2,206,000 less than in 1860. 'Is it possible,' it may be asked, 'that the Bank of England can be limited now to almost the same amount as it was in the year 1844? Is it possible that more elasticity should not be indispensable—an expansion commensurate with the expansion of trade?' The answer is simple. We have in effect a gold circulation; the notes beyond the one fixed amount represent gold in the vaults, and, that being so, the circulation is as large, as unlimited, as the gold which we can command. The attacks on the Bank often allege that it is conducted on a cast-iron system. But the system is not cast-iron. It is as elastic as our power to draw gold to this country, and that power has no limits. When the community requires more circulation, more gold must be drawn to this country by the operation of the foreign exchanges and by the raising of the rate of interest, as is now well understood [1].

Of counter-proposals to increase the fiduciary issue —the notes represented by securities alone—in order to avoid the painfully stringent measures in regard to

[1] The Bank of England notes in circulation at the end of the first half-year of 1905 amounted to £30,700,000. (The average for the half-year would be less as the circulation always expands at the end of a quarter.) The average amount of Bank of England notes in circulation during the years 1863–1868 was about £22,200,000. As the public has lost the use of a large amount of notes of private banks, whose issues have lapsed, it will be seen that, looking to the gigantic increase in the total trade of the country, the increase of notes required for its conduct is singularly small.

the rate of discount, which are requisite to attract gold in time of pressure, something will be read in the article itself. It is an old story, currency laws held responsible for over-trading, clamour for changes to extricate the too sanguine speculator who thinks it a scandal that, so long as he has anything on which to borrow, he should not be able to obtain bank-notes from one source or another. Allusions will also be found to the suspension of the Bank Charter Act on several occasions of extreme pressure, that is to say, to the authorization by the Chancellor of the Exchequer of an extra issue under very severe conditions as regards the rate of interest to be demanded of borrowers—in other words, a temporary increase of the fiduciary issue beyond the legal limit—an extreme measure, taken not to supply the improvident with cheaper money or to produce greater ease, but justifiable only under extraordinary circumstances to avoid a universal crash.

It must be understood that these observations only state the laws as regards our note circulation in the briefest and crudest form. They are offered simply as a clue to laymen, unversed in the subject, to so much of the following pages as touches the controversies which in those stormy times raged round the constitution of the Bank of England. Even to business men, I have been told, the working of the system is not universally familiar.

The fundamental principles of currency in their international aspect, the flow of the precious metals from one country to another and the laws which govern its tides, are illustrated in the following article from other points of view besides that of the Bank of England. A very celebrated French financier, M. Pereire, had put forward some startling doctrines

in those years with reference to the establishment of a maximum rate of interest and the duties of a national bank. As will appear, M. Pereire was not only the founder of the gigantic Crédit Mobilier of France, not only a negotiator of immense foreign loans—he was at the same time a professor of some of the most attractive doctrines of Saint-Simonianism, a champion of the highest, if somewhat Utopian, philanthropy. I probed his proposals as regards bank reforms somewhat exhaustively, because they afforded an unrivalled example of the cardinal heresy as to currency which I was combating, the heresy that to a business community, indissolubly connected with foreign trade, any artificial laws or arrangements could enable liabilities which, *ex hypothesi*, included international liabilities, to be faced and discharged without such natural action as would afford the only certain means for their immediate discharge, that is to say, the procuring of a supply of means of payment which are universally accepted, in other words, the precious metals. I devoted much space to this refutation. I have somewhat condensed the exposition in this reprint, but notwithstanding the oblivion into which, in this country at least, M. Pereire may have fallen, I have allowed the substance to stand, as a full and still applicable illustration of the views which I have held from my first initiation into banking business, on some of the fundamental laws on which in my judgement a safe currency must rest.

Another subject to which I gave prominence was the effect of the expansion of the joint-stock company system on the various conditions of the money-market, and the fresh directions which it gave in many respects to the commercial and industrial enterprise of the country. The development of limited liability made a deep impression on me from the first, as constituting

an extremely important factor, not only in the narrower world of business, but in the distribution of wealth in the community at large. The earlier consequences of the system formed the principal burden of my article on 'Seven per cent.' in 1865, and again came under revision in the companion picture 'Two per cent.' in 1868. But the continuous and wider influences exercised by the fundamental change wrought by the transfer of an enormous proportion of our industry and commerce from private individuals and firms to public companies with their myriads of shareholders, will be found to be treated very fully in my address on the 'Condition and Prospects of Trade,' delivered in 1885, and still more so in that on 'The Increase of Moderate Incomes' in 1887, both reprinted in this volume. I have always been as greatly struck by the *economic* consequences of the change as by its banking effects, far-reaching as the latter have been. Its influence on the distribution of profits over an ever-widening area of the population should never be overlooked. With all its dangers, with some deleterious influences on commercial character, with its temptations to the foolish, and its opportunities for the dishonest, it has nevertheless enormously increased the number of those who participate in the business profits of the nation, and, *pro tanto*, has checked accumulations in the hands of a more restricted class. But this is to forestall an argument which will be found later.

It was in the year 1864 that the movement first reached a sensational point. The reader may possibly consider that I have described it with a somewhat more exuberant pen than I should employ now with my judgement steadied by forty years' observation.

It was difficult for any one surrounded by such swift and gigantic developments at once to gauge the issues to which they might lead. I attempted to lay down general principles, and to point out the logical sequences and the disturbing causes which might affect such sequences; and when in 1868 I had to paint a different picture, when the phenomenal expansion of enterprise in 1865 had been followed by a terrible reaction, I was able, as will be seen, to point out that in my review of the feverish activity and the prevalence of an abnormal rate of interest in the earlier year, I had specified conditions under which a breakdown would inevitably take place and the value of money fall. But I made the error of attributing too much importance to the new development in its bearing on our business with foreign countries, and to the prospect of its keeping the rate of interest at home in closer relation to the rates of interest current abroad. Such a tendency seemed inevitable, as the argument in the following pages will show; but I foresaw and pointed out that a breakdown of credit amongst multitudinous companies organized to lend capital to foreign borrowers would check the movement; and when not only a breakdown but a veritable catastrophe occurred, the effect of joint-stock companies in raising the value of capital at home by pouring it out even to safe and solvent borrowers abroad disappeared in 1868. While much British capital has been, and is still, periodically invested abroad, the consequence of such investments has not, so far as I can judge, exercised such an equalizing tendency as regards the value of money as the terms of my argument on that subject, though accompanied by many strongly-expressed qualifications, might seem to have contemplated as possible.

Lastly, I would request the reader in his perusal of both the two following articles to bear in mind how greatly the distance of forty years must affect the perspective of the events recorded, and especially the standards by which the dimensions of transactions should be gauged. The bulk of our trade has increased so enormously that what in 1865 seemed gigantic operations do not appear abnormal by the measurements of to-day. It may not be easier when studying chapters in monetary or financial history to discard our own familiar standards, and to weigh the period under review without reference to the conceptions of the present, than it is in other departments of history. Thus the contemporary superlatives or other strong expressions which reflect the impressions made by monetary transactions and the volume of business in the sixties should not excite surprise. They are part of a truthful record, written on the spur of the moment, which, I hope I may say, faithfully depicts the atmosphere of the business world at that time; and, indeed, these articles might in a sense be regarded as part of my personal reminiscences.

SEVEN PER CENT.

REPRINTED FROM THE 'EDINBURGH REVIEW' OF JANUARY, 1865.

A YEAR ago a sagacious observer of our financial condition wrote: 'The pecuniary year 1864 opens under remarkable circumstances. The year 1863 has left us a legacy of three powerful mercantile causes. First, we are buying cotton largely in new countries; secondly, we are promoting companies in vast numbers; thirdly, we are considerably extending our general export trade, not only with a few countries, but with almost all countries—with the world at large. It is right that we should consider clearly what the combined effect of these three causes is likely to be.' The writer concluded with a prophecy which we are now in a position to review, 'that the year would be a serious, though not an alarming year, that our trade would probably be very large and very profitable, but that against this we should have to set the possible consequences of *a long period of dear money.*'

It may be thought that the late year has been not only serious, but even alarming. Probably in no former instance has there been so much agitation without any actual crisis. Not only has money been dear, but, if we except the few weeks in 1857 during which the rate of interest rose to 10 per cent., even dear beyond precedent. The average rate of 1864 exceeded *seven per cent.*, a considerably higher average than that of any year within English banking memory.

Trade has been carried on under a continual sense of pressure and coming danger. We have witnessed all the well-known symptoms of an anticipated panic. During weeks and months a general tone of anxiety and foreboding pervaded City articles and financial journals, and not in financial circles only, but generally throughout society, a vague impression prevailed that there was something wrong in the City. Abroad the same feeling was prevalent, and Paris, Frankfort, and Amsterdam, not only trembled for themselves, but above all things trembled for London. In all quarters, under the belief that some change for better or worse must immediately arise, and that a continuance of the existing state of things was unnatural and impossible, there was a growing tendency to exaggerate and misinterpret every symptom, till under the lassitude of increasing apprehension, the crisis which seemed for ever impending and never to come, was almost invoked. Manchester cried that her industry was paralysed. Liverpool, if the Bank Act were not suspended, prophesied the collapse of her trade. The provinces telegraphed anxious inquiries to London about failures which had not occurred, and London retaliated by curtailing her credits to the provinces. Banks were almost ruined by the repeated assertion of their incapacity to meet their engagements, and men made up their minds that it would be impossible to clear off the aggregate liabilities of commerce without a catastrophe. The experience of former years was constantly appealed to, in order to prove that the same phenomena portended the same end, and that the sequence of events in 1847 and 1857 would also be the sequence of 1864.

For this almost universal anxiety there was undoubtedly some ground. Without question the

engagements of the country had been unprecedentedly large, and that at a very critical time. The interruption of the cotton trade, far from contracting the liabilities of the country, as might naturally have been expected, had on the contrary actually increased them by the new forms of foreign commerce to which it gave birth. Egypt and India and other countries comparatively new to the cotton trade, taxed the paying powers of this country far more than America. For America in the general course of trade took payment not in bullion but in manufactured goods; and a comparative want of organization in the infant trade prevented that economy of circulation, which the old-established current of commerce between America and this country had carried to so high a perfection. Besides this, the general trade of the country, in spite of high rates of interest, in spite of the constant apprehension of danger, had continued to all appearance on an undiminished scale. We need hardly observe, that the transactions of our general commerce cannot be suddenly curtailed. Our engagements under the present system of credit necessarily extend far into the future, so that a time of pressure cannot at once visibly produce the phenomenon of a sudden and general contraction; and as an immediate contraction was supposed to offer the only escape from a money crisis, the slow progress made in the reduction of our liabilities could not fail to produce anxiety. The effect of these somewhat disquieting circumstances was heightened by the apprehension felt with regard to the working of the new financial companies which in the year 1863 suddenly attained such an extraordinary expansion. Would these companies, it was asked, be guided by the same rules of prudence which the experience of former critical years had taught

older establishments, or would the hopes of enormous dividends, and the consciousness of the limitation of risks under a diffused liability, render them callous to the signs of the times? Would they, if they could, could they, if they would, escape from the vast undertakings to which they seemed pledged even by their very names? At a time when it was almost looked upon as a disaster that the ordinary scale of ordinary transactions could not be contracted with sufficient rapidity, the gigantic operations of the new companies naturally seemed to justify still deeper distrust.

But there was one consideration which, independently of any just appreciation of its causes, oppressed the public mind. Men were not satisfied to know *why* money was dear, they were alarmed at the fact independently of its causes, and above all they were disturbed by the long continuance of the fact. Of late years, it is true, the antiquated notion that 5 per cent. was to be the limit and criterion of financial respectability has lost much of its force. High rates of interest, such as 6 or 9 per cent., no longer produce the same shock upon the nerves of the trading community. But it was one thing to endure high rates for a few weeks, or at the outside a couple of months, and a very different thing to witness the continuance of rates ranging from 6 to 9 per cent. through the course of an entire year. *An average rate of* 7 *per cent.* seemed indeed intolerable. The instinctive belief that any dearness of loanable capital is in itself, apart from any causes whatever, a commercial calamity, appears almost invincible, and the patience and resignation with which it is endured in City circles properly so called, who living close to our banking centre are better able to see, as it were with their own eyes, how the system works, provoke

the sneer of the manufacturer and the retail trader, that high rates of interest naturally find favour *there.* The traditional exasperation always hitherto caused by any long-continued scarcity of capital prevails unabated, and the public, undervaluing the force of other theories, pertinaciously fastens that scarcity on our banking legislation. The Bank Charter Act is the universal scapegoat. That Act is, directly or indirectly, looked upon as the cause of all the evil. The amount of bank-notes *must* be insufficient. Has not every kind of transaction almost indefinitely multiplied and increased, and why then is the circulating medium fixed? Have not other monopolies been abolished, and why should the most odious and searching of all monopolies, a monopoly which penetrates into every corner of the national commerce, and cripples every energy in the country, be maintained? Liberty of trade we have, and why not liberty of banking?

These familiar phrases, recalling ideas, long ago and over and over again refuted, involve, in whatever form presented, the fallacy, that in a country like ours, whose export and foreign trade is the very fountainhead of its prosperity, and whose liabilities to foreign nations bear so large a proportion to its total engagements, the means of fulfilling those engagements could be made, or ought to be made, artificially or legislatively abundant. It is not too much to say that in many quarters it was hoped that the Bank Act of 1844, which had already been suspended twice, would break down again, a catastrophe which it was believed on all hands would have given the death-blow to the obnoxious system. The day was almost invoked when another deputation of bankers and money-dealers might wait on the Government with threats

of a universal suspension of payments, if the magic letter were not conceded to put an end to that intolerable system—doubtless the deputation would have called it a *cast-iron system*—whereby men are prevented from fulfilling engagements into which they have knowingly entered beyond their means.

The sketch we have given, though necessarily brief, forms, we think, no exaggerated picture of the state of feeling during the past financial year. While we write, this public feeling is only just emerging into another phase, and men breathe more freely because the year which began at 7 per cent., and threatened to close at 9, actually closes at 6. Nevertheless, 6 per cent. is still considered a high rate of interest, which it would be pleasant to be able to characterize as an abnormal, an unnatural rate. The prediction of 'a long period of dear money' has already been abundantly justified, but is it really at an end? Can it be reasonably hoped that the halcyon days of 3 per cent.—days when the lender humbly sued the borrower to accept a loan, and the borrower actually conferred a favour on the lender by taking his money, —are ever likely to return? We shall best find the answer to these queries, if we attempt to unravel the causes of the scarcity of loanable capital which has so long prevailed, and endeavour to ascertain how far it may be attributable to the prolonged operation of causes essentially temporary nevertheless, or how far the new phenomena may perhaps in reality be due, not so much to temporary causes, as to fundamental and possibly permanent changes in the relation of the aggregate of English capital to foreign demand, and to the daily multiplication and growth of the channels through which the former is sucked out and absorbed by the latter.

Upon the temporary causes we have already touched. No doubt the export of bullion to pay for cotton raised in foreign countries, unaccustomed as yet to take manufactures in payment, has exercised a very powerful influence on the money-market, and has possibly more than counterbalanced the large excess in the supplies of the precious metals which under the effect of a depreciated currency has reached us from the United States. No doubt also the general increase in our trade tends to raise the value of loanable capital, and the congratulations on the flourishing returns of the Board of Trade are seldom unmixed with a tinge of misgiving at the accompanying possibility of a rise in the rate of interest. In connexion with this view of the subject, it deserves to be noticed, that in the autumn of the late year, when these trade returns showed the first signs of a falling-off, the first symptoms of a fall in the price of money had also become apparent.

But although the causes we have briefly reviewed might account for some of the recent financial phenomena, it was universally admitted they could not account for them all. And it was argued that our financial system was at fault, that a system which permitted the long-protracted scarcity of a commodity so indispensable as money must be unsound, and that the present condition of things must arise out of artificial and abnormal causes, which, as they had been artificially created, could be artificially removed.

We think, on the contrary, and we will endeavour to show, that the present condition of affairs has arisen, not out of artificial and abnormal, but normal and natural causes—in other words, that the high rates of interest which have lately and so long prevailed, are the result not of any artificial tampering with the

natural course of things, but precisely on the contrary, of giving the natural course of things free play. It will be found, we think, by those who patiently study the subject, that the rise in the price of loanable capital is, above all things, due to the growing availability and diffusion of English capital for *foreign purposes*, and that this growing availability and diffusion are in their turn the consequence of the new organization provided by the comparatively sudden and vast expansion of the joint-stock system, and of the birth of so many financial companies capable of undertaking the largest operations.

At first sight it may seem that the searching competition of the new companies which sucks into the money-market and condenses into large and available streams countless rills of savings scattered up and down the country, which were not reached before, ought, by bringing more unemployed capital into the market, to lessen its value and lower the rate of interest. And such would be the case. But in truth the distributive and diffusive power of the new companies is even greater than their attractive and condensive power. The centripetal force by which our home capital is made to gravitate towards our home centre is vastly increased, it is true, by the new organization, and this of itself would tend to lower the rate of interest. But then the centrifugal force by which, under the new system, capital, once condensed, is scattered all over the world instead of being allowed to accumulate at home, is greater still, and thus the rate of interest, instead of being lowered, is raised, and the rise in the rate is probably, therefore, not temporary, but permanent, certainly not artificially produced by legislation, but naturally produced by the new forms and the vast scale of competition in financial enterprise.

With regard to the attractive or absorbing power of the new companies, it is not necessary to say much, as this branch of the subject has been often exhaustively discussed. The non-commercial classes saw in the new organization the means of securing profits which hitherto were looked upon as the birthright of the mercantile community. They saw the names of men who had made large fortunes for themselves now figuring in companies as directors ready to make large fortunes for others. The first results were, in many cases, highly satisfactory. Dividends were secured which outstripped the most sanguine predictions of that class of promoters, as they are technically called, who might be described as the midwives of modern enterprise. It was argued on the one hand that such dividends were hollow, that no sound system could give such results, that they were a proof of sheer rampant speculation, which must end in a speedy collapse. But it was argued on the other side that many a business had given its owner 20 per cent. The rapid accumulation of private fortunes was a matter of constant occurrence. And why should such a business not give the same, or at least similar, returns when the capital was supplied piecemeal instead of as a whole? Messrs. A. B. and Co. became millionaires in their trade. Why, then, should their business, now changed into the 'C. B. Warehouse Company,' be considered one of the extravagancies of the day, because its dividends opened at an unprecedented percentage? Private banking is proverbially a flourishing trade. Why should the high dividends of the joint-stock banks be turned as an argument against them? Was there not a kind of inconsistency in the public judgment on this point? When men hear that a private firm is highly prosperous, they consider it simply as a prima

facie proof of commercial ability. But should a company make the very same gains, and publish them in the form of a dividend, these gains are, in this case, considered as a prima facie proof of overtrading. Profits expressed in the form of dividends have a different effect on the public mind to what they have when they are shrouded in the mysteries of private accumulation. The individual grew rich by a secret operation unintelligible to the masses, who had strange visions of occult and mysterious processes by which money was coined in the City, but *how* they hardly tried to guess. Now, on the contrary, trade is carried on before the eyes of the general public. The public itself is admitted to the secrets of the guild. Not only does it witness the process, but it is also invited to share in the profits.

Against the tempting scale of these profits, the opponents of limited liability and joint-stock enterprise have, it is true, a very strong argument to bring forward. This argument is so well known that we need only state it. It is not certain, they say, that those who manage their own affairs well, will manage the affairs of other men with equal ability. Directors are apt to be careless, and managers are too often reckless. As a despotism is more efficient for action and administration, so a man, who is his own master, and responsible only to himself, will trade with more success than the heterogeneous agglomerate of a joint-stock board. How far this argument will be practically justified must be determined by experience. The dividends must solve the doubts. We certainly believe that private enterprise will hold its own, especially in those spheres of trade where personal character may be brought to bear against the impersonality of a board, or where capacity may outweigh capital. But the

success of joint-stock enterprise may be great, although the success of private enterprise may be greater. The London and Westminster Bank, and other banks of similar standing, have proved that banking, at all events, can be carried on by a board and by managers with triumphant success. And although, on the other hand, there have been instances of gross mismanagement, it must be admitted, we think, that the public shows by its conduct that these instances of failure and immorality have not as yet counterbalanced the effect of high dividends, and that so far shareholders do not believe in the impossibility of securing sound and efficient management on the part of boards and salaried officers.

These reflections naturally arise when we attempt to gauge the force of that influence which is absorbing, we might almost say, the savings of all classes into the channels of trade. We have not now to deal with the subject in its social aspect, or to pronounce an opinion whether the facts, as they exist, are to be welcomed or deplored. We are here concerned with their influence on the loanable capital of the country, which, as we have attempted to describe, is not only collected together in large streams, under the absorbing force of this new organization, but submitted to such a searching system of drainage, that whereas, in former days on any emergency, some surplus capital was sure to be found somewhere, now, on the contrary, there is absolutely no reserve; and when the large reservoirs happen to have undergone any unusual depletion, all minor sources are found to be dried up. And so long as these reservoirs mainly supplied English industry and enterprise, so long, far from any scarcity arising, the machinery of condensation was found to have increased

the supply, and the improved availability of capital was felt as a benefit by our manufacturing districts, and indeed by all producing classes, who applauded a system which seemed to be placing at their disposal the whole savings of the country. And so far, if no other causes had intervened, the creation of new companies would not have raised the rate of interest, and would not have disturbed the home trade.

But other causes did intervene. The new companies did not confine themselves to the supply of English demands. Seeking for the benefit of their shareholders the highest rates of interest, they found the rates higher abroad than at home, and thus were led to place their capital not at home but abroad. In this fact we find the main element of our increased rates of interest. We have explained how capital seeking employment was absorbed into new companies, and if we study the outfall of these vast drains for the collection of home capital, we shall find that it tends not inwards but outwards. The extent to which the consequent outflow of English capital may proceed thus becomes dependent on the nature of the foreign demand, and it will be found that the new companies have thus thrown themselves open to a demand, of which no school of theorists can pretend that it could be supplied by increased issues of paper money or any jugglery of paper currency. Moreover, the peculiar nature of the present foreign demand deserves special attention, as it seems to differ materially from previous experience. Bubble companies for trading with the antipodes have been the rage before, but there was an essential difference in their aims. In the celebrated mania of 1825, graphically described by the historian of the Thirty Years' Peace, the wildest speculative schemes were entertained. Men's imaginations were

fired by the prospect of discovering in foreign countries hidden mines of wealth. 'The precious metals were expected to be found glittering in the clefts of the Cordilleras, pearls were to be sought in Columbia, the Pampas were to be revolutionized into yielding butter instead of hides, and a cargo of Scotch milkmaids were shipped to Buenos Ayres under the auspices of a Churning Company.'

But although it may be admitted that many features of that remarkable year were strikingly analogous to some of the incidents which we have lately witnessed, —an analogy which has led to the belief that the miserable collapse which then was the result would now be repeated,—there is, we think, a difference, and that difference is palpable and clearly defined. In 1825 men strained at new sources of wealth which neither private nor joint-stock enterprise had previously ventured to explore. They rushed headlong on the wildest adventures in regions at the time practically unknown. Now, on the contrary, joint-stock enterprise has been less anxious to invent fancy branches of commerce, or to find mysterious and recondite sources of wealth, than to get the highest rates for their capital by *lending* it to foreigners. To satisfy the foreign demand for capital in all its forms seems to be the leading idea. To assist landowners by mortgage banks, merchants by discount establishments, governments and cities by loans, and generally to introduce capital into countries where the rate of interest habitually stood at 12 per cent. and often reached 18, —such are the professed objects of the most prominent among the new companies.

English and French banking principles are on a crusading tour throughout the world. Turks are to be taught the use of bank-notes. Turkey, indeed, has

been a favourite field. There we have the Imperial Ottoman Bank to conduct the business of the Government and to familiarize the Moslems with the modern substitute for gold. We have the Ottoman Financial Association professing to undertake all financial operations from discounting a bill to building a railway. We have the 'Société Générale de l'Empire Ottoman,' whose ambition is to take up that ground in Turkey which the Crédit Mobilier occupies in France. And we learn that negotiations are actually in progress for a Turkish Crédit Foncier. Banks abound whose familiar names in every variety suggest the one pervading fact of the marriage of English capital with foreign demand. There is the Anglo-Austrian Bank, the Anglo-Italian Bank, the Anglo-Egyptian Bank. There is the English and Swedish Bank; there is the British and Californian Bank; there is the London and Hamburg Continental Exchange Bank; there is the London and Brazilian Bank, the London Buenos Ayres and River Plate Bank, and even a London and South American Bank; and one bank, wishing to outstrip all other banks in the ambition of its title, calls itself the European Bank.

If from banking companies we turn to trading and finance companies, we find them anxious to avoid even the semblance of a limitation to any one country, and anxiously putting the widest possible definition upon their scope and aims. We have, it is true, the more modest Egyptian Trading Company, and the London and African Trading Company. But the names of these companies are quite eclipsed by the cosmopolitan magnificence of other titles. We read of the English and Foreign Credit Company, of the Imperial Mercantile Company, of the International Financial

Company, of the General Credit and Finance Company. Nor are land companies much less ambitious. We have the Australian Mortgage Land and Finance Company; we have the British American Land Company, the Crédit Foncier of Mauritius, the Mauritius Land Credit and Agency Company, the Natal Land and Colonization Company, the South African Mortgage Investment Company; and the cosmopolitan element is represented by the International Land Credit Company.

This almost wearisome list of modern companies we have quoted as a striking illustration of the fact, that the main object of the new system of investments is *to lend* money abroad at a higher rate of interest than can be secured at home. And it is clear that loans of capital affect our money-market in a greater degree than the general operations of trade. Trade can be carried on by the simple interchange of goods. Loans, on the contrary, are almost necessarily for a time one-sided, being a gross export of capital to be replaced only in detail over a space of years. Thus the establishment of companies not for general trading purposes so much as for the location of English loanable capital abroad, must have an influence on our money-market, which, as it has already assisted in raising the annual average rate of interest in this country during the past year to *seven*, seems only too likely to prevent the recurrence of the sweet simplicity of three per cent.

It should be remembered, moreover, that until within a late period, a certain number of large firms alone were considered to have the secret of farming the commerce of distant countries with safety and advantage. It was supposed to be their privilege and birthright to carry on the trade of supplying money

to foreign governments, of building foreign railways, creating foreign banks, opening up new industrial operations in foreign countries,—in a word, of supplying capital to regions where money was worth 15 to 20 per cent., and where commerce being in its infancy, production and importation could scarcely be developed without extraneous aid. Operations of this kind were held to be beyond the reach of ordinary enterprise. The larger profits attending them were thought to be the certain index of greater risk. And unquestionably there is more risk in lending money to Rio or Mexico than to Manchester or Liverpool; and the former might bid 10 or 12 per cent. in vain, while the latter successfully offered 3 or 4.

But the effect of this difference under the late system of unlimited liability was very apparent. In the first place, only a few firms of large capital ventured upon the trade at all. In the next place, the amount of capital which they could export for foreign use was limited by the amount of their own resources, augmented by whatever credit they could command. Moreover, each bore the whole risk without any limitation of his liability, and was naturally, therefore, unwilling to go beyond a certain length in dealing with countries where financial operations are attended with apparently greater insecurity than at home. But when after a few bold experiments it was found that this branch of trade, with all its enormous profits, might be carried on by a company not less than by private firms, an immense change took place. A vast variety of companies rushed into the new Eldorado of financial enterprise with a confidence founded, partly on the success of previous experiments, partly on the attraction of the dividends, and partly on the limited liability and diminished risk of each

shareholder. The limited liability of each shareholder became one of the chief elements in the unparalleled suction, the minute and complicated drainage, brought to bear, as we have shown elsewhere, upon the scattered capital of the country. Under the system of unlimited liability few, except a small section of bankers and merchants throughout the country, would engage in foreign enterprise, and those who did were prone to keep within certain traditionary grooves marked out by the caution of former generations. But now, owing to the vast number of shareholders, and the limitation of their liability, the timidity of each investor is indefinitely diminished, while any remaining coyness is overcome by the golden harvest in prospect. Again, the diffusion of knowledge during the last twenty years has acted as a powerful auxiliary in the movement. The public at large has become almost practically acquainted with countries and places, which half a century ago were only familiar to a very small class of men. When, therefore, new companies of every description began to appeal to the country under the system of limited liability, their appeal was suddenly responded to from a hundred thousand unexpected quarters, each man choosing the speculation which touched his own imagination and chimed in with his acquired knowledge. Thousands of men, who, under the old system, would rather have invested their money at 3 per cent. at home than risk it abroad for 50, are now ready to place it abroad for 15, rather than keep it at home for 5. Thus it is that a class of merchants, which, as we have said, had hitherto been comparatively small, has now been increased by an indefinite number of investors, who are not only willing but eager to add to their approved and traditionary investments a few shares of a

more modern, less certain, but more remunerative character.

We have endeavoured, at some length, to describe the nature and to illustrate the operation of the new movement in the English money-market, and we have found its main features to be increased facilities and an increased disposition for the exportation and location of English loanable capital abroad, and, on the other hand, a practically unlimited foreign demand for English capital almost at any price. The corollary is self-evident.

While numerous countries are eagerly competing for our financial assistance, now that a system has arisen on an adequate scale by which that assistance can be rendered without excessive risk to the lender, it is clear that so long as this new system remains sufficiently popular to command, if not to entrap, the confidence of investors, *the rate of interest cannot possibly, ceteris paribus, fall below a point at which companies trading with foreign countries are willing to take it.* If money is again to become as cheap as our manufacturers would have it, one of two things must take place. Either the demand of foreign countries for English capital must decrease, or the credit of the companies through whose medium that demand is supplied must break down. The former alternative is very remote. With regard to the latter, it is unquestionably possible that the public which has invested a certain portion of its savings in foreign enterprise may be disappointed with the results, and may withdraw its confidence and withhold its contributions from over-speculative financial companies. On the other hand, it is quite conceivable that some, at all events, of the operations of the new companies

may prove to be of a nature sufficiently sound and safe to secure a permanent hold on the capital of the country. Establishments, for instance, have been formed with the express object of lending money on mortgage in India, and if the value of land in India is sufficiently defined, and the laws regarding mortgages inspire sufficient confidence, it is clearly possible that practically unlimited sums may be withdrawn from this country, and find their way to India under such an agency. Nor is it necessary that the interest of these and similar investments abroad should be on a par with the interest of investments at home. It is enough that they should bear a certain ratio to one another. To take an imaginary example, it is enough that a man should prefer an investment at home at 5 per cent. to an investment at 8 per cent. in India, yet at the same time prefer 8 per cent. in India to 4 per cent. at home. In this hypothetical case, supposing such a feeling to be prevalent among English investors, it is clear that money would not fall below 5 per cent. in England, so long as India paid 8 per cent. If India began to pay more than 8 per cent., corresponding capital would begin to flow out of England, and the rate at home would rise, and vice versa. Of course this is an illustration only.

This we conceive to be the true key to the financial history of the past year. It is not simply the development of joint-stock enterprise, the creation of new companies, the *numerical increase* of such companies, which has raised the value of money. This alone of itself, as we have seen, might have lowered the rate of interest. It is the new field of operations chosen by joint-stock enterprise—that field, the most voracious of all—which has been the determining element in the rising price of capital, an influence which, if not

checked by a breakdown of credit, must, from the nature of the case, be more or less permanent in its character.

The events of the past year and the temporary pressure which England has suffered under this new competition for loanable capital suggest the question, whether any measure should be taken to lighten that pressure and to remedy that scarcity of capital which is its cause. Is this a case with which we ought to attempt to deal, or could deal if we would? We are prepared to answer both questions in the negative. M. Pereire, the acknowledged head of financial enterprise in France, who, while performing the most novel and dexterous feats of French financial speculation, has not forgotten the doctrines of Saint-Simonianism, in a recent pamphlet written to expose the laches of the Bank of France, has answered both of them in the affirmative.

A high rate of interest he declares to be not so much a disadvantage as a terrible curse, an evil which had endured too long, the result of abuses which it is incumbent on the State, and possible for the State, forthwith to correct. The monopoly of the Bank of France was at the root of the evil. The Bank having the monopoly of issuing paper, had a consequential monopoly of discount also. It turned this power to its own advantage by charging what interest it pleased. But when it raised the rate of interest at its own arbitrary discretion, it justified its action on the false and fallacious ground of the necessity of protecting its bullion reserve. But this bullion reserve can be otherwise protected, in a manner less injurious to the commonwealth. Let the Bank increase her resources, either by disengaging her real capital now locked up, and transmuting it into gold, or by augmenting her

share capital. These means being available, it was false to say that a high rate of interest is essential to the convertibility of the bank-note. Should the Bank of France not adopt the remedies pointed out, or should her resources remain insufficient, *a new and rival credit establishment was imperatively called for with a capital of twenty millions.*

This is the theory, stripped of its ornaments, which M. Pereire has brought forward to account, on the one hand, for the dearness of money in France in late years, and, on the other hand, to justify the methods which he suggests to remedy an evil of such intolerable magnitude. It will be seen at once that M. Pereire is at all events consistent. He sees no difficulty in attributing a phenomenon so vast as the scarcity and dearness of loanable capital throughout France during a period of years to the action of one bank, and he believes that it can be removed by another. To account for the high rate of interest on our side of the Channel, we have been obliged to carry our arguments all over Europe, and even beyond that, to the antipodes. M. Pereire wanders neither to Asia, Africa, nor America, not even to Spain or to Italy, to which the operations of his own financial children, the Crédits Mobiliers of Turin and of Madrid, would, one might think, have called his attention. Distinctly denying the power of foreign nations to exert any influence on the rate of French interest, or in his own words, 'the hire of French loanable capital,' he pertinaciously confines his argument to France, as if France could remain unaffected by the influence of surrounding nations. If M. Pereire is willing to admit that loanable capital travels from one country to another—and M. Pereire, of all men, ought to know best if such is the case—we are utterly at a loss to under-

stand how for one moment he can maintain that the price of that loanable capital in one country does not affect its price in another. The only attempt M. Pereire has made to escape from this law is an attempt to prove that under certain given circumstances such an effect may be modified or neutralized.

But it was essential for M. Pereire to get rid of the element of foreign competition and foreign demand, in order to secure his avowed end, permanently to keep down the rate of interest in France. Having built an imaginary wall round France he can, in theory at least, deal with French capital as he pleases, and he appeals in glowing terms to French sentiment, adjuring the Government to impose a maximum rate of interest on the Bank of France—in other words, to supply loanable capital at a fixed rate—in the same way as bakers in France, until lately, were under legal compulsion to supply bread at a fixed price. But if a maximum rate were imposed, whence is the supply to come? In the first instance, as we have seen, by an increase of the capital of the Bank of France, or, failing that, by the establishment of a second bank. And what then? This M. Pereire fails to show. But so brilliant a picture does he draw of the effects of the second bank, that no one would care to ask.

'Every part of the social organism would be instinct with a new life; labour would shed its blessings over all, the funds would rise as well as the shares of all great companies, and the companies, being able to emit their loans on better terms, would impart fresh activity to their works. The State would be able to consecrate large sums to the great national work of building roads and railways without augmenting taxation, thus giving a useful and productive employment to the funds, with which loans on favourable

conditions would supply them. The fortune of the poor man, like the fortune of the rich man, would share in this general amelioration. The prosperity and wealth of each individual would find its corresponding increase.'

Well may M. Pereire exclaim in conclusion:—

'How does the picture of this prosperity, which soon would become a reality, transcend that of the ruins engendered by the cold and arid theories of the laggard professors of an exploded balance of trade!'

These splendid results—in which the blessings of labour and the poor man's enrichment are so deftly combined with the attractions of the rising share list, in which the State is baited with the hope of cheap loans, and the country by the prospect of railways to be built with superfluous funds—these glorious results are to follow in France from the establishment of one more bank.

We are ready to admit that the multiplication of banking establishments in France might be attended with considerable benefits. The French have nothing to correspond with our gigantic joint-stock banks, which not only compete, but compete successfully, with the Bank of England. The financial power of England consists to a great extent in our ability to supply immense sums on the shortest notice, a power which exists in no proportionate degree in France. And we cannot be surprised that our neighbours should look with something approaching to envy on the great facilities which these establishments afford to trade and to enterprise. These banks perform the very functions which M. Pereire desires to see performed in France, with one notable exception however. Interest remains high in England nevertheless, while in France he insists that it is to be made low. We

say, therefore, let M. Pereire have his bank by all means, especially if he can satisfy his country that his novel expedient of keeping the whole of the new bank's own capital invested in gold would secure that convertibility of the bank-note under any rate of interest, for which, honestly we believe, he professes his reverence.

We object, not to the possible results of the founding of another bank in France, but to the certain results of the establishment of M. Pereire's principles in France or anywhere else. He advocates, indeed, the convertibility of the bank-note, but the key-stone of his theory is, that *to raise the rate of interest is not the true or proper means to retain the necessary amount of bullion.* But what are M. Pereire's means? He would buy gold with a limited part of the assets of his bank. He would, he says, buy gold 'as railways buy locomotives,' with real capital, not with paper payable at sight. The expedient may be admirable, but the unanswerable objection to it is, that no bank can employ it without limit. Not only can no bank employ such an expedient without limit, but the limits within which any bank can employ it are obviously very small indeed. How can the limited capital of any one bank meet the drain of an unlimited demand? It is clear that the most effectual plan to retain whatever amount of gold may be necessary is to check the demand, instead of attempting to multiply the supply. The Banks of England and France have followed the former policy; M. Pereire is the apostle of the latter.

We may make the case, already we think quite clear, clearer still by putting it into figures. Let us suppose the stock of gold of the Bank of France to be eight millions sterling, and its note circulation thirty millions. Let us then suppose a drain of gold

for foreign purposes to set in and carry off two millions a week. M. Pereire immediately proceeds to sell Government securities, and by some process, which is not very clear, but which we will suppose to be possible, he is fortunate enough to convert them as fast as he requires into gold. The capital of the Bank of France is about eight millions sterling. In four weeks, therefore, he will still have, it is true, eight millions in his till, but he will have no more securities to convert. From that moment he is evidently powerless, and the drain will carry off his gold till his notes cease to be convertible. The Bank of France, on the contrary, like the Bank of England, would attempt to check the demand on the one hand, and invite gold on the other, by raising the rate of interest. A drain of gold to foreign countries must represent a disbursement of gold in settlement of old or in anticipation of new transactions. If the former, the foreigners may be willing to give time for the equivalent of a higher rate of interest. If the latter, the anticipated payment to the foreigners will be deferred. A high rate of interest thus prevents an outflow, and induces an influx of that commodity which is most convenient and most at hand for transmission from one country to another—gold.

It is quite true that the rate of interest does not depend on the scarcity or abundance of circulation; but it is no less true that gold being *the* commodity in which reserves of loanable capital are kept, these reserves are reached and attracted by a high rate of interest. M. Pereire asserts, unequivocally, that there is no other means of maintaining the abundance of gold except by the purchase of it, '*produits en main*,' ignoring in this statement the fact that gold may be equally, and even more rapidly, procured by loans, and loans by the

attraction of interest. He forgets, as many others have forgotten, who love to assert that gold can always be procured by the sale of commodities, that there are times and places when other commodities are, for the moment at least, not wanted at all. All pending promises to pay, both here and in France, are practically contracts to pay in gold or notes; and as the notes are convertible into gold, all promises to pay are virtually promises to pay *in gold.* For the fulfilment of these contracts, which must be kept to the day, a machinery is required by which gold may be immediately, not ultimately, procured, or which, failing this, may cause the payment to be deferred. The raising of the rate of interest constitutes such a machinery, and, as we believe it to be both theoretically demonstrable, and practically demonstrated, the only machinery.

We see no alternative between this remedy, painful as it is for the moment, and an inconvertible currency, which is not only painful but absolutely ruinous. When the notes of a bank get into the hands of foreigners whose object it is to convert them into gold to an amount exceeding the stock of bullion in the bank, the inconvertibility of the note is upon it. How is this to be met? M. Pereire affirms that the Bank should refuse to discount *for those who export gold*, in other words, *should place notes beyond the foreigners' reach.* M. Pereire, the champion of free trade, *wishes to prohibit the export of gold*! What will he do? Will he admit this, or deny it? If he admits it, he himself becomes one of the 'laggard professors of the bullion doctrine' ('*docteurs attardés de la balance du commerce*'). If he denies it, his imaginary wall of separation which protects him from foreign demand falls down, and he is at the mercy of every foreign loan-

monger who is ready to outbid his stereotyped 4 per cent.

But let us see how the foreign demand would act. Spain or Italy would either of them be willing to bolt at a gulp those magic 'twenty millions,' by which, as the reader may remember, so marvellous a transformation is supposed to have been accomplished. Italy, for many months, offered her exchequer bills at a rate of 11 per cent. Large amounts of this security are held by Paris bankers. But aware that if the amount were increased, and gold exported in payment, the rate of interest in France would rise, the Paris bankers dare not exceed a certain limit. On the other hand with a maximum rate of interest at 4 per cent., where would the limit be? The Paris bankers—indeed every one in France, and M. Pereire at their head—would lend as much money as they could abroad, borrowing it at home at 4, and pocketing the difference. They would borrow it at the Bank of France or at the new competitive bank. These notes would immediately be presented and exchanged for gold. The gold would be exported to Italy or Spain, and the Italian or the Spanish Government carry off that cheap capital, which, as a financier, M. Pereire is willing to offer to foreigners *at eleven per cent.*, but which, as an author, he yearns to keep for the benefit of the workmen of Paris *at four.*

While the principles of free trade are fully established, and capital is encouraged to migrate, like any other commodity, from the cheapest to the dearest market, it seems to us, we must confess, utterly futile to suppose that any one country which takes its share in international transactions can attempt to keep or succeed in keeping its interest at a lower rate than is warranted by the surrounding demand. Possibly

another issue may be raised. The extent of the foreign competition might be called into question. It might be admitted that, *ceteris paribus*, the highest bidder would receive the available capital of all those countries which under perfect free trade have access to the different money-markets, but it might be asked, is the competition really so brisk? When we consider what demands are being made, we shall be better able to judge whether the artificial increase of the capital of one or two banks would exercise any appreciable influence. We will pass over the demands of trade, the payments for cotton, the development of private industrial enterprise throughout Europe. Let us look for a moment to Governments alone. Almost all the Governments, not only in Europe but in America and Africa, are competing and bidding against each other to secure loans, all eagerly looking for the cheapest market and the best opportunity. The credit of many is doubtful, but they offer compensation by exorbitant rates. Turkey will take any sums at 12 to 15 per cent. Egypt offers 8 and 9. Spain, at her wits' end even to pay for the outfit of a man-of-war, offered 11 per cent. in vain. Russia, too proud to pay the rates necessary to attract foreign capital, compromises between her wants and her dignity by a lottery loan at home. Federal America appeals, not in vain, to the savings of Germany, and the Confederate States tempt the more adventurous Englishman, forbidden to gamble in lotteries at home, by the charms of blockade-running abroad. Austria, the inveterate borrower of Europe, whose borrowing powers a few years ago seemed wellnigh exhausted, has brought her constitutional revival to market, and marks her political progress by a progress in her debt. The minor States eagerly follow the example of the

great Powers, and the movement seems to have reached a climax when we find within the course of a fortnight Moldavia and Montevideo competing for loans in the English market. If we add that all these Governments are ready not only to borrow for themselves but to guarantee interest on any amount of railway capital, it must surely be felt that the demand is inexhaustible; and that whoever attempts to stave it off by the establishment of a French bank, is like Mrs. Partington and her mop trying to keep off the waters of the Atlantic.

We have proved, we think demonstrably, that with a stereotyped rate of interest in France, and that rate lower than abroad, every French bank-note would at once be converted into gold, and that gold taken out of the country. If we have attempted the refutation of propositions which, when nakedly stated, in this country at least carry their own refutation with them, we have been tempted to this examination by the opportunity afforded of showing more clearly the ultimate drift of doctrines, which if boldly pushed to their extreme conclusions by the unflinching logic of an enthusiastic Frenchman, seem preposterous indeed to the practical English mind, yet, when stated, as they often are stated in this country, in a vague and less transparent form, command a certain amount of vague and floating assent.

In England no one would pretend that Government should legislate to procure cheap money, or that loanable capital, like any other commodity, will not seek the dearest market. It will be admitted, we believe, that it is not the business of the Government to legislate to procure cheap money, but the assertion often made is that the effect of legislation has been

to made it dear. It is sometimes supposed that our Bank Acts make money dearer than it would naturally be; that if the Bank were allowed to issue more bank-notes, or still better, if the privilege of issue were freely accorded to other establishments, or if the capital of the Bank were 'more in proportion with the demands of the times,' that scarcity of money which so often occurs would be remedied and avoided.

Men who hold these views will tell you, in support of their contention that legislation has made money artificially dear, that this contention of theirs is not a theory but an established fact. They feel that an additional issue of bank-notes at the moment would be an indisputable advantage to themselves. If they go to the Bank for a loan and the Bank practically replies, 'I have no notes to give you,' they not unnaturally curse the system which prevents their being accommodated. 'If,' say they, 'the Bank could issue more notes, we should get them.' If a railway contractor has some splendid scheme to carry out but cannot place his bonds, he argues, 'If more bank-notes were created, I should at once get my share of them. That to me is a practical fact, which no theory can overthrow.' But supposing this to be a real relief to particular individuals, we have to inquire what the general effect would be on the community? One of two things would happen. Either by these issues the aggregate currency would be depreciated, and thus the remainder of the community be defrauded, or these issues would expel a corresponding amount of gold, the withdrawal of which would pinch one portion of the community exactly in the same ratio as another had been relieved. With regard to these two alternatives, the convertibility of a bank-note will secure

us against the former, namely, the depreciation, but expose us to the latter. Bank-notes become scarce when gold is being exported, and the exportation of gold is hindered by the scarcity of the notes. If you remove the scarcity by additional issues, what follows? You remove the impediment to the export of gold. If we only remember that bank-notes are *convertible into gold*, this proposition is self-evident.

Let us suppose that in answer to the clamours of a part of the community the Bank should be authorized to issue two additional millions of bank-notes unrepresented by gold. Two millions of bullion would then, as we have proved, be exported. The impediments will have been removed not to industry at home, but to the *export of bullion*. In other words, two millions will have been added to the paper, and two millions subtracted from the gold. The aggregate currency at the disposal of the community will be the same as before. Relief will have been afforded to some, at the expense of the screw imposed upon others. 'But,' says the manufacturer, 'I shall have got my notes, my credit will have been saved, and my labourers will have been employed, and what does it matter to me if two millions of gold have been exported?' We answer, those two millions would have been at the disposal of another portion of the community, of other manufacturers, of other labourers. The aggregate currency, we cannot repeat it too often, would be the same, the only difference being that an arbitrary displacement would have taken place benefiting one man at the expense of another, but *leaving the country with more notes and less gold.*

It may be asked, would this in itself be an evil? Would it not, on the contrary, be an advantage if two

millions of gold could be set free and replaced by two millions of notes—on the supposition, at all events, that by such a change the convertibility of the note would not be in the least endangered? It is admitted that the issue of £14,000,000 of bank-notes, as at present permitted, economizes gold to that extent, that is, economizes wealth to that extent, since gold is a valuable commodity, and it may be asked, would not an additional issue of two millions be simply an extension of the same benefit and of the same principle? We are ready to answer this question in the affirmative, but with this proviso. It would not increase the facilities to trade and industry. It would have no permanent influence whatever on our money-markets. It would have none of those effects which those who most loudly advocate those issues desire. But certainly the advantage would be gained that the supply of gold to the *world at large* would have been increased by two millions, and that England would have converted a certain small portion of unproductive capital into productive capital. The gain to England would by no means be of an indefinite character. It would simply represent the *interest* on two millions, at most a hundred thousand pounds—a valuable saving, no doubt, especially if secured to the State; but we question whether the majority of those who clamour for an increase in the issues of the Bank would be satisfied if the results attained by the adoption of their favourite measure should eventually prove to be limited to this fiscal advantage.

We have said that the productive capital of the country is increased by setting free an amount of gold; but it is not the *loanable* capital—that portion of floating and uninvested capital which is at the disposal of borrowers—which could be permanently augmented

by such a measure. A fraction of a foreign loan, or a branch of one foreign railway, might immediately carry off the *momentary* addition to the loanable capital made by the issue of additional bank-notes, and not only might do so, but probably would do so. *So long as we have a convertible currency*, the facilities to trade in no way depend on the issue of bank-notes. Practically and to all intents and purposes we have a gold currency, but economizing, as far as possible, the use of gold for the benefit of all the world, with certain fiscal advantages to ourselves. And we are by all means disposed to carry the economy to the widest extent compatible with prudence, *separating, however, entirely the question of cheap or dear money from the question of economy in the use of gold.* We require money for internal and external purposes, and cannot separate the two. To attempt to separate the two, or to attempt a circulation simply adapted for the former, would be to sacrifice our foreign commerce, and, above all things, to interfere with that free export and import of capital on which our commercial prosperity depends.

We believe we have proved conclusively that our currency laws in no way make money dear. They allow complete liberty to the export and import of capital, leaving them to the laws of supply and demand. Since the passing of the Bank Charter Act, the average rate has indeed been higher, and this fact has been currently laid to the charge of the Act, but with this fact, we contend, the Act has nothing to do. Our readers will not fail to observe that the main point upon which we have insisted throughout this article has been, that money becomes scarce and dear from natural causes and not from legislation, and that the particular cause which we believe to have been in operation of late has been a foreign demand,—a demand

searching in its nature, and more distinctly apparent than a home demand, but, on the other hand, a demand which high rates of interest can effectually check. An internal panic, leading to an internal demand for notes or coin, cannot be checked. You may legislate as you will, but you cannot legislate for panics. They occurred under the elastic system. They occur under the 'cast-iron' system. In the one case men believed in unlimited resources, undertook unlimited engagements, and found in the end, to their cost, that the resources were not unlimited, but limited. In the other case they also undertake unlimited engagements, forget the cast-iron system at the beginning, and only remember it at the end. The catastrophe in the two cases offers a singular contrast. In the first case, believing in an infinite multiplication of bank-notes, men find that they come unexpectedly to an end. In the other case, rushing into a panic because by law the notes are limited, people claim to be delivered from the panic by the suspension of the limiting law. Thus in the end it is the elastic system which proves to be a 'cast-iron' system, because it is there limited by a fact; but the 'cast-iron' system proves in reality to be the more elastic, because it is only limited by a law.

If the above reasoning is admitted, it results that a catastrophe is certain in the one case, but in the other not unavoidable. Why has the suspension of the Bank Charter Act, in both the instances when it has happened, had such an extraordinary effect? Because the panic which it met arose less from men wanting the notes, than from their *believing* that they could not have them. And the restriction of the Act having kept the circulation of notes within the limits prescribed, a slight temporary addition could be made without danger. Under the elastic system, however,

the panic would not arise until the last note had been issued which could safely be issued, and panic would inevitably end in actual disaster. Thus the very reproach of the Act of 1844—the circumstance that it has twice been suspended, and that on each occasion its suspension caused panic to cease—becomes evidence in favour of its main provisions. The Act was not suspended from a defect of the Act, but because the public (and not only the general public, but even the dealers of the moneyed world) had traded as if the Act did not exist. Its provisions are forgotten until it is too late, notwithstanding the weekly warning that is given by the published returns of the Bank. And the past year has brought this fact out in the strongest relief. On the one hand, the year 1857 was still comparatively fresh in men's recollections. On the other hand, the general belief prevailed that possibly on the third occasion, instead of permitting the Act to fall and money-dealers to stand, the experiment might be tried of allowing the Act to stand, and money-dealers to fall. The storm-signals were earlier raised. The Bank itself took more vigorous action *in time*. Men remembered the provisions of the Act before it was too late, and the crisis has been triumphantly conquered.

The most thoughtful opponents of the Bank Charter Act admit its efficacy in most respects, but believe that it is impotent, and even disastrous, in an internal panic, and quote in confirmation of their belief the well-known saying of Sir George Cornewall Lewis, that the harm which happened under the Act in a few days made him doubt whether its great advantages during the whole remaining period were not counter-balanced by that harm. This doubt seems to us to involve the idea that the harm arose because of the Act.

But in what way, we may ask, would the Act create the harm? It would probably be answered, by prohibiting an issue of bank-notes which might otherwise be issued. Private banks have been prohibited from issuing, and the Bank refuses to issue itself. Thus the possibility of relief has been cut off. But is it true that the Bank Act has cut off the means of relief? If you cannot procure notes, you can procure gold. And if you cannot procure gold you are already on dangerous ground. It is surprising how entirely this fact is overlooked. It is said at a time of panic private bankers must have notes or they must suspend payment, and language is really held as if the circulation consisted exclusively of those notes of which the issue is limited. The circulation is not limited. It is at least as unlimited as the supply of gold in the world. And to say that trade must be brought to a standstill if fresh *notes* are not issued, is to confess that fresh supplies of gold can no longer be had. But if this is the case, it is the strongest reason for not issuing those notes which profess to represent gold.

The argument is often put in another form. An internal panic, it is said, results from a breakdown of credit, and a breakdown of credit is equivalent to a decrease in the circulation. To issue bank-notes at such a time is simply to replace that deficit in the circulation. No doubt it may sometimes safely be done when the panic is only internal, and when therefore the supply of gold is less a matter of importance. We will not pretend to deny that a special occasion might arise when a temporary emission of additional notes might allay a panic without doing *specific* harm. But when to meet these special cases it is proposed to give a *permanent* suspending power either to the Government or to the Bank directors, or in what-

ever form it may be, it seems to us that it would be sacrificing the certain and undoubted benefits of the Act, in order to meet a case where its suspension may possibly do no immediate harm. We have, we trust, abundantly shown that countries engaged like England in international transactions, can rely only on the rate of interest to determine the supply of loanable capital, and that any measures intended artificially to depress the rate of interest, disturb the free play of supply and demand. Temporary issues of additional bank-notes in such an emergency emphatically constitute such measures; and inverting the sentiment of Sir George Cornewall Lewis, we say of them, and not of the Bank Act, that it may be doubted if any good they can do at the moment can compensate the lasting injury they occasion.

The events of the late financial year could scarcely be discussed without some reference to the Bank Charter Act. It has notoriously been on its trial. The result has been that a panic, universally believed to be unavoidable, has not occurred. Had there been any relaxation, had the trading community not felt the imperious necessity of curtailing engagements, had not the possibility of absolutely exhausting the supplies of loanable capital been constantly before the public view,—instead of beginning the new year with replenished resources, with improved prospects, and unshaken confidence in our system, we might have had to look back on disasters which, in their magnitude and consequences, might have far exceeded any previous catastrophes. An average rate of interest of seven per cent. has been hard to bear, but the lesson has been learnt, that a scarcity of capital is only to be remedied by outbidding every foreign competitor for

the temporary use of that floating available capital which, under the modern organization of international finance, is invariably attracted to that country which offers the highest price. And however painful the process may have been, we have at least the satisfaction of knowing that, without suspension of any law, without recourse to any empirical measure or questionable makeshift, in perfect harmony with science and statesmanship on the one hand and expediency on the other, it has been found possible to save the commerce of the country by *seven per cent.*

TWO PER CENT.

Introductory Note.

The preceding article appeared in the January number of the *Edinburgh Review* for 1865, the present article in the January number of the same *Review* for 1868; exactly three years lay between them.

The extraordinary contrast disclosed by a review of the condition of the banking and business world at these two dates was foreshadowed in the Introductory Note to the former article which told the story of the year 1864; the startling characteristics of the year 1867 form the subject of the following pages; but, as a connecting link between the two, it may be useful very briefly to indicate what had been the trend of affairs in the interval, and especially how the development of the situation as it was left at the end of 1864, acted on the fortunes of 1865 and 1866. It included a terrible catastrophe.

The commercial and monetary characteristics of 1865 were in many respects analogous to those of 1864. The oscillations in the value of loanable capital were nearly as violent. No less than seventeen changes were made in the Bank rate of discount in the course of the year. There was an encouraging drop to 3 per cent. towards the middle of the year, but the surface of the business world was still too agitated for so low a rate to be long maintained. The last days of the year were once more troubled by the advent of 'seven per cent.' The foreign trade of

the country showed no decline, and business, taking a broad view, had not been unsatisfactory in the country generally. But mischief was brewing. The development of the limited liability system was progressing apace. Of new companies, 237 were produced, and if a considerable proportion proved abortive, it only added to the general confusion. Meanwhile the large foreign loans introduced in the course of the year, yielding tempting interest, and the offer of many other forms of investment by the newly-created organizations, exercised that effect on the price of securities which, as expressed in the article 'Seven per Cent.,' was its natural outcome. Consols, which in April stood at $91\frac{3}{8}$, had sunk to $86\frac{3}{4}$ in December. Railway shares and other stocks fell disastrously. To those who could read them, there were ominous signs of a coming storm.

It burst with unparalleled violence in the spring of the following year. The rates of discount during the earlier months of 1866 reflected pressure and uneasiness. The position of some railway contractors whose solvency depended largely on the prolongation of the advances on the strength of which they carried on their operations, excited much anxiety. The failure of one or two country banks was announced. But even when very dark clouds gathered on the horizon in April, no one anticipated the awful crash which smote the City on May 10, when the great discount-house of Overend & Gurney closed its doors. Its liabilities amounted to the colossal sum of £19,000,000; but not less far-reaching than the immediate losses which such a failure entailed was the withdrawal from countless traders and clients of the facilities on which they had reckoned at the hands of the famous establishment to enable them to meet their own

'promises to pay.' The dimensions of further prospective catastrophe seemed immeasurable. Panic was uncontrollable, and Government was compelled to intervene without a day's delay. On May 11, the Bank Charter Act was suspended to permit the Bank to issue notes beyond the legal limit. The resources thus placed at the disposal of the Bank enabled it to discount bills, and to make it possible to help solvent but momentarily embarrassed firms by temporary advances; but, as part of the arrangement, a minimum charge of 10 per cent. on the advances had to be exacted for the accommodation. The panic quickly ceased. Only a few millions beyond the legal limit were issued. It was enough for men to know that they could borrow on any terms.

The Bank rate continued at 10 per cent. from May 11 till August 17. Subsequently the value of money declined; but, in the City world, in the money-market, in the investment-market, no real recovery had taken place at the close of the year. The shock had been too great, the area of the catastrophe too wide, its effects too deep.

Meanwhile in this year 1866 the mighty wave of our foreign trade rolled on little disturbed, and, indeed, our exports showed an increase of £18,000,000 over the preceding year. Nor at this time did our national finances show any sign of weakness.

Of the fortunes of the banking world in 1867 I need say nothing here. They are elaborated in the treatise to which this is the 'Introductory Note.'

I have again asked myself in the case of this article, as I shall be found to do in all I republish in this volume, How far have the practices, the characteristics, the tendencies in the business world of the period under review, changed during the years which

have since elapsed? In what respects was it a different business world from that which conducts the banking and the trade of to-day? To one such question an answer has already been given [1]. Our currency laws have remained unchanged. As they survived the recklessness of 1864 and 1865, so they have survived the crash of 1866, the reaction of 1867, and other periods of storm and stress. Have purely banking principles and practices similarly remained unaltered? I should like to think that, in respect of the splendid traditions of the old firms, their conduct of business, so cautious, so prudent that they sustained their credit amid the disastrous period of the sixties with almost unquestioned strength, the general attitude of the banking community was quite the same to-day as then. I was able, as will presently be seen, to speak of the extremely sobering influence exercised by the transfer of floating capital from more adventurous quarters to the custody of steady-going bankers, and by the scrupulous acknowledgement at the hands of the great bulk of banking-houses, the representative firms, of the peculiar obligations imposed upon them by the nature of their deposits. Absolute security in the choice of their investments had remained with them the very first consideration; the next, the possession of available resources for their regular customers. I venture humbly to call particular attention to the terms in which, after a terrible crisis had been surmounted without any serious gap in the ranks of the great banking-firms, I thought it just to speak of the confidence which they inspired and the policy they pursued. I earnestly hope that the transfer of many a fine old-fashioned banking-firm with family traditions of a century behind them, to the more impersonal

[1] Vide p. 2.

management of limited companies, may in no wise have affected the sense of caution as the primary duty of the present administrators of colossal deposits.

One duty in these modern stirring days must always be steadily kept in view—the imperative duty to resist the temptation created by excessive and ubiquitous competition. Not to lose a customer by too severe an examination of his over-draft, may be insidiously suggested to managers by the siren 'ambition.' It is currently said that the competition among banks has never been so sharp as now. Shareholders, too, may be exacting as to dividends, and watch for purposes of invidious comparison those of rival banks. Under the stress of such pressure from without, and ambition from within, it is imaginable that less steady business might be entertained than the old-fashioned banks would have regarded with favour. These are possibilities only—I hope temptations only. But, in comparing the present with the past, it may be admissible to point out the possible influence of a new atmosphere as well as the immense progress and the vast improvements which we witness in so many directions to-day. The country has been permeated with banking facilities. Rival banks offer their activities in every country town. Every class of trader, in town and country, has better means for carrying on his business; and, provided boards of directors insist on curbing too exuberant a competition, the extension of the system, with all its advantages, may doubtless have been effected without any risk of forfeiting that unquestionable stability of which the representative firms gave so splendid an example in the time with which these articles deal.

I am not aware whether, at the present day, bankers are less insistent on their customers maintaining

adequate balances than in former times, or whether their customers are less liberal now in the matter of leaving handsome balances in their hands, but I am inclined to think that under the existing competition this might easily be the case. The reduction of private balances affects not only the profits of bankers—that is exclusively their own concern—but these balances are in fact *private reserves.* Some anxiety as to the general question of adequate reserves in the banking world has often been in my mind.

As to bankers' reserves, I ventured, in a speech to the Leeds Chamber of Commerce in 1891, here republished[1], to tackle this delicate subject, and urged the duty of their being amply maintained and increased, as a matter of high national importance. It appeared to me doubtful whether, in view of the vastness of the monetary structure which they had to buttress, their dimensions were quite as large as was wise. But, apart from the action of bankers, it is clear that the general practice of too close an investment of every penny which a merchant or trader possesses, without any reserve for contingencies, is also, however good his credit, distinctly a source of weakness to the monetary world. The catastrophes of 1866 offer a terrible object-lesson of this danger. It will presently be shown that in those days 'the world had parted with its reserves.' Working capital had been sacrificed to the craving for speculative investments. Men borrowed money for their own regular business in order to pour their own resources into a joint-stock company or a foreign loan. When credit crumbled, and none could put their hands on any reserve, when none could come to the rescue because too many were in the same plight, the penalty was paid in universal disaster. Have the con-

[1] Vide p. 105.

ditions of the money-market so completely changed as to render the story of the *débâcle* of 1866 so out of date that it conveys no lessons to succeeding generations?

One more word as to another monetary question relevant to the narrative which follows. I recall that in the Introductory Note to 'Seven per Cent.,' allusions were made to the unlimited power of attracting gold by raising the rate of interest. The story of 1866 and 1867 affords an excellent illustration. When Messrs. Overend & Gurney closed their doors on May 10, 1866, the stock of bullion in the vaults of the Bank of England was £13,000,000. The rate of interest was raised to 10 per cent. on the following day. Before the end of the year the stock of gold had been increased by more than 50 per cent. and stood at £28,000,000. The increase in the notes in circulation was far more than covered; and so effectually had the lessons of prudence been taught, and the reaction from over-speculation been developed, that it had been possible for the Bank to raise the proportion of its reserve to its liabilities, which for the year 1866 had been 29 per cent., to 49 per cent. in 1867.

It is, however, worthy to be put on record that in one far-reaching direction our position as to gold has materially changed since the sixties. I have stated that our currency laws have been upheld in their integrity ever since. But the position of our money-market is not only affected by our own currency laws. Those of other countries, our competitors in banking and in trade, must necessarily have a great influence on ours; and they have undergone profound alterations, which modify our monetary position in many respects. In the sixties Germany had a silver standard, France an effective bi-metallic standard,

Austria, Russia, and the United States a depreciated paper currency. All these countries, except France, have now a single gold standard. These changes undoubtedly affect our power to attract gold when we want it. Formerly we were the natural outlet for gold. No other European had the same normal use for it, except for the arts and for hoarding in the East. Now all and every one of them are as eager to attract gold as ourselves, and in a time of world-wide crisis we might find our one weapon for attracting gold,—the raising of the rate of discounts,—less effective, less immediately effective, than in the past. On the other hand, if other countries were less pressed than ourselves, a portion of their stock of gold might find its way to us. On the whole, however, looking to the greater facilities for extracting gold from the Bank of England on demand, compared with the difficulties of getting at the gold of foreign countries, owing to certain forms of dilatory tactics or moral pressure, it would seem that the changes in the currency laws of our neighbours have made watchful caution as to our gold reserve more imperative than ever.

Towards the end of this article, the reader who has been interested in the fiscal controversy of the last two or three years, may possibly smile when he finds my then comparatively 'prentice hand engaged on the same task of dissecting the totals of our Foreign Trade statistics, as has lately engaged the industrious eagerness of so many economic belligerents. Already, then, I occupied myself with the distribution of our exports between continental markets, our colonial possessions, and the various other countries who were our customers. I examined the causes of their growth or decline. Already, then, by a singular analogy with

some recent conditions, I was able to point out the degree to which a fall in the price of cotton had produced the impression of a diminution in our exports as well as in our imports, which could not be charged to receding trade; and suggested, on the other hand, examples of larger imports which were simply due to calamities—such as short crops and cattle diseases — and could not be regarded as gain. Already, then, it was possible for a careful inquirer to discern symptoms of 'dumping.' The name of this now notorious policy is new, but the practice was not unknown long ago, and prompted me to point out how an increase of exports might sometimes simply be the result of a desperate effort to get rid of stocks which it might be difficult to sell at home. Such merchandise might be consigned as a forlorn hope to some foreign country, even if the only advantage might be to obtain advances upon them.

The figures quoted in my review of the trade of 1867 may be so remote from those of the present day—e. g. wheat stood at seventy shillings—as to suggest that their presence in this volume is an anachronism; but I republish them and the passage which dealt with them, only slightly condensed, as an instance of the application thirty-seven years ago of the same methods of dissection and analysis as are indispensable now if rash fallacies and attractive generalities suggested by sensational totals are to be avoided in serious economic controversies.

If I preach this doctrine, possibly with unnecessary insistence, in this series of articles, at all events I hope I may claim that I have practised what I have preached from the first.

TWO PER CENT.

REPRINTED FROM THE 'EDINBURGH REVIEW' OF JANUARY, 1868

THE year 1867 will take rank in history as the year of the unforeseen. Every page in its records bears witness to the discomfiture of prophecies and the triumph of paradox. The longest experience and the most accredited theories were found equally at fault. The natural sequence of events seemed to have been inverted, and effects refused to follow causes except in an eccentric orbit. In politics and in trade alike, probabilities were turned topsy-turvy. The oldest axioms were discovered to be fallible, and the most favourite proverbs lost their meaning. The world declined to continue to believe that there is 'nothing new under the sun,' when the self-same year produced two phenomena so remarkable as the Tory party, flushed with victory, singing an exulting *Te Deum* over household suffrage, and Commerce, clothed in sackcloth and ashes, chanting a *De Profundis* with money at Two per cent.

Money at Two per cent.! The long-hoped-for consummation has arrived. The financial Utopia has been reached. What castles in the air had not been imagined by governments, railway directors, engineers, companies, cotton growers, promoters, to be carried into actual execution and constructed when money should once more fall from 7 per cent. to 3? As for 2 per cent., such a figure had scarcely been dreamt of, even in the boldest flights of fancy of M. Pereire.

But the most sanguine expectations have been outstripped. Money is at Two per cent.; not in England alone—the situation on the Continent is almost the same; not for a few months only—the entire year has scarcely witnessed a change. Compared with the general rapidity of past fluctuations, there is an apparent permanence about this Two per cent.; compared with the local character of many changes in the value of money, there is a universality about this present cheapness. The accumulation of gold is something marvellous. £60,000,000 sterling are piled up in the vaults of London and Paris[1]. The grain harvests have been short in England and France, and every precedent required short crops to be followed by dearer money and an emigration of gold. In past years, when the barometer fell in the months of July and August, the faces of borrowers fell in sympathy. Dear corn meant an export of bullion, and the export of bullion meant a higher rate of interest. But *nous avons changé tout cela* in this famous year of Two per cent. Though the importation of grain has been enormous both here and in France, and though the additional supplies required have certainly cost the two countries more than £20,000,000, the tide of bullion flowing in was too strong to be rolled back by any disturbing elements. It was reserved for the year 1867 to exhibit, for the first time, the co-existence of wheat at 70*s.* with money at Two per cent., to the confusion of the Cassandras of political economy, who

[1] Throughout this article I wrote of the bullion in the Bank of France as 'gold' without making any distinction between gold and silver. In those days, silver had not yet been dethroned, and was legal tender in a great part of the world; thus it was not so necessary to specify the separate stocks of gold and silver as it would be now. Doubtless I used the term 'gold' for the sake of brevity, assuming that it would be correctly understood.

had predicted a rise in the value of money. Nothing surely could have exceeded their perversity. They were not content to explain the long prevalence of rates of interest averaging 7 per cent., by temporary causes. Far from confining themselves to the situation of the day, they had refused to believe that, with an increasing demand for capital all over the world, with new channels opening up, with fresh means of communication and information bridging over distance and ignorance, and bringing insatiable borrowers from all parts into closer relation with capital at its fountain-head, the rate of interest could ever, by any jugglery of legal enactments, or by any devices for increasing the currency, be permanently kept down. Has not their theory been put to shame by the present state of affairs?

It may not, however, be inopportune to inquire, why, if money is at Two per cent., everybody does not hasten to borrow? Can the rates of interest, so temptingly low, indicate any other feeling on the part of capitalists than an intense desire to lend, and to utilize, almost at any price, their superabundant store? Why, then, is there not a rush to secure it? And where, we may ask, is the prosperity, the rise in prices, the activity in trade, the greed for new contracts, the competition for public works, the eager race for Government loans, the flood of new companies, the general haste, the enterprise, and buoyancy, and speculation, which cheap money brings in its train? Alas, here is discomfiture again. If, contrary to theory, money has once more become extraordinarily cheap, contrary to experience, the cheapness of money has not borne its accustomed fruit. A year, exceptional to an unparalleled degree in respect of a low rate of interest, has been no less exceptional in respect

of commercial depression, falling prices, and universal distrust. It is true that contraction has always followed expansion, and that low interest has been the invariable consequence of long-continued commercial inflation after the inevitable crash. But the remarkable feature in the late year is the long continuance of this reaction, and the apparent hopelessness of the situation. If the inflated operations of 1864 and 1865 led to the crisis of 1866, it was to be expected that the very extent and intensity of the reaction would have brought about its own cure long ago. Twenty months have elapsed since the great break-down of 1866, and the tone of commerce is scarcely improved. Whatever the scale of actual operations may be, men still talk and reason as if the crisis continued to this day. No statistics, no arguments, no imports of gold, no tempting rates of interest for borrowers, have the slightest effect. The bullion returns, usually faithful barometers of financial weather, have pointed all the year to 'set fair,' but trade has enjoyed no respite from 'much rain.' A heavy cloud has covered all departments of commerce and industry with gloom. Prices have remained low for almost every kind of goods, as well as every kind of stocks and shares; and the eagerness of sellers only served to increase the timidity of buyers. The seller's necessity was no man's opportunity. Gigantic failures occurred with money at Two per cent. no less than when it stood at 10 per cent. Railway enterprise never languished so much: scarcely ever before have so few private bills been presented to Parliament. To all intents and purposes the year 1867 has been one long financial, commercial, industrial, and railway crisis.

France has not fared better than ourselves. The French have been sharply checked in that victorious

advance on the road of commercial and industrial development, by which they were asked, not quite in vain, to console themselves for the many serious reverses in their military and political supremacy. All the heart has been taken out of business in Paris as in London. Rouen and Liverpool have been exchanging condolences; and the wreck of Overend, Gurney & Co., in England, found its parallel in the grounding of the Crédit Mobilier in France. But while the English company sunk in the hurricane of the crisis, with money rising to 10 per cent., the French company ran aground when the storm was past, and in full sight of £40,000,000 of gold. Whether the causes of the universal depression in England and France have been identical, we will not at this moment inquire. The Chamber of Commerce at Rouen exhibited a laudable curiosity on this point; but the French Government snubbed their curiosity, and brought their cosmopolitan correspondence with other chambers of commerce to an untimely close. Such public interchanges of opinion were discovered to be a contravention of Imperial legislation.

France has doubtless had many special difficulties of her own to contend with, but has been spared one calamity which aggravated the crisis in England, and carried its effects into regions generally beyond the reach of financial disturbances. The collapse in our railway finance resulted from causes which were only partially connected with the general upheaving of joint-stock enterprise and the paralysis of trade. Its effects, too, reached a different class. The most prudent families had been taught, partly by the habits and customs of trustees, partly by inferences from Acts of Parliament, to believe that the debentures of English railways ranked next in security to Consols. A hitch

in the debentures of an insignificant company changed the whole face of affairs. Lord Cairns's famous judgement was a crisis in itself. Railway debentures—the favourite investment for 'couples about to marry,' the last resource of trustees distracted on the one hand by their own anxiety to avoid responsibility, and on the other by the importunities of their wards not to be sacrificed to Consols—railway debentures, the cynosure of the old-fashioned school of investors, in whose nostrils every other form of joint-stock credit savoured of abomination, these prized debentures, with the single fault that their lives were too short, and that the mighty companies which issued them would perchance not condescend to renew them on the same terms—have shared the miserable fate of the grosser forms of public and private securities. A legal flaw brought down the debentures, and with the debentures fell the whole fabric of railway credit. The flaw discovered was, however, not the only weak spot. The difficulty led to inquiry, and inquiry revealed results, which, quite apart from the question of the legal lien of debentures, dealt a blow at railway securities in public estimation, of which the effect will not be removed for years.

Nothing is more characteristic of the history of the last two years than the *universal* nature of the depression which prevailed. It has often occurred that a commercial crisis has left whole classes of the community unscathed. Large mercantile houses have come to the ground, drawing down smaller houses in their fall. Within certain circles the trouble and misery were extreme. But meanwhile the great wave of English commerce at home and abroad rolled on undisturbed by local storms. It appeared that millions on millions might be lost without arresting,

to any appreciable extent, that even general trade, which, sometimes overlaid by rampant speculation, sometimes almost disappearing behind a curtain of distrust and gloom, nevertheless seemed to be superior to every disturbing cause. But disasters coming from every quarter during the last two years have at last so far prevailed as to have carried the full meaning of a crisis home to every class in the country. How railways have contributed their part, we have just seen. By them the most prudent investors have been drawn into the common fate. As for less prudent investors, they were made parties by joint-stock companies to the ups and downs of commercial and financial adventure; and during the last two years there have been more 'downs' than 'ups.' Apart from the immense abuses which have taken place, and from the wide-spread misery caused by the collapse of semi-fraudulent companies, the association of the non-trading public with even the most legitimate commerce naturally carried the disasters of bad times over a greatly extended area. The middle classes throughout the country, both trading and non-trading, have never been more sorely tried. The incomes of countless families must have been most seriously curtailed, and the results of reduced expenditure have everywhere told upon the home trade. The expenditure of the bulk of the population on articles of great necessity does not seem to have been affected much, except in the case of beer and spirits. But this situation is quite compatible with considerable pinching on the part of the middle classes. We have heard from leading houses in London and Manchester, whose travellers penetrate into every cranny of the realm, and by their dealings with retail traders have the best opportunities for taking stock of the buying capabilities

of the country at a given juncture, that for many years there has never been so little buying, so much stagnation. And how could it be otherwise? Not only has the accumulation of savings been checked. Incomes have been seriously menaced, and the prospects of future years have been mortgaged to satisfy the inexorable claims of liquidators and creditors. And if dividends remain unpaid, luxuries must be docked, new dresses cannot be bought, and tradesmen will complain. We are not speaking from the point of view of political economy, but simply measuring the extent of what is called the inactivity of the home trade. We have fewer data to guide us in this respect than when we attempt to gauge the extent of our international transactions. But if a general consensus of complaints can be substituted for statistics, the epidemic has visited our home trade with as severe virulence as any part of our aggregate commerce.

But indeed no department of business has had any reason to boast. It is difficult to point to any single branch (except, indeed, the importation of wheat) which has been palpably and generally remunerative. The same story will be told in the bankers' parlours as in the Lancashire mills, on the clamorous Stock Exchange as in the quieter though scarcely less keen atmosphere of the produce markets in Mincing Lane. When we speak of the want of enterprise, of the dullness of trade, we have not in our minds the disappearance of the happy promoter, the butterfly of the sunny days of financial activity, nor are we only impressed by the constant flight over the horizon of the stormy petrels of a crisis, the speculators *à la baisse*. There has been less buying and selling of staple commodities; new transactions have stood in smaller and smaller proportion to the liquidation of

old operations, and where an article used to be sold three or four times over, it is now sold only once. This is not an evil in itself, but it indicates the disposition of commercial men. Where purchases are now made, they are made because the purchase is necessary to the buyer at once, because his stock is exhausted, not because he believes that the article is going to rise. In a word, trade is conducted from hand to mouth. There is no speculation, no laying in of stock, and transactions have enormously diminished, less because our imports are smaller, than because those imports pass through fewer hands.

In whatever direction we turn to study the symptoms which are generally believed to indicate the position of trade and finance, we appear to discover most unfavourable points. It is true that in no kind of inquiry are we more likely to be misled by the first appearance of facts, than in an analysis of commercial affairs—in none, as we shall show when we have to analyse our international trade, must we be more on our guard against misleading totals. But in the situation before us the prima facie evidence of a serious backward movement seemingly accumulates on every side. Look at the returns of the Income Tax, where, though by the system of averages the illusions of 1865 still soften the disenchantments of 1867, we find an unprecedented decline. Look at the tables of exports. They show a decrease of £6,000,000. Look at the total of our imports. The falling off is £12,000,000. Look at the prices of our leading railway shares; at the Great Northern, fallen since 1864 from £135 to £104; at the Great Western, fallen from £78 to £43; at the London and Brighton, from £103 to £51. Look at the long list of joint-stock companies, marked at prices involving losses by the side of which the

depreciation of even railway shares seems moderate and endurable. Look at the state of the Court of Chancery—blocked with the liquidation of companies bankrupt or dying of atrophy. Look at the failures in Liverpool, and hear the confession of Liverpool men—very frankly made—that the whole place has almost been 'cleaned out.' Then turn and contemplate the idle millions of gold in the Bank, and money at Two per cent. The paradox seems complete. The golden radiance of £60,000,000 sterling in Paris and London is impotent on the hard black frost under which commerce seems to be perishing of cold. Like the polar sun, they illuminate but do not warm. The cheapness of capital is equally powerless. Speculation remains cold and refuses to be comforted. Two per cent. woos in vain!

But is money really at Two per cent.? And does this accumulation of bullion in England, and notably in France, really signify what it is supposed to imply? It is true that the Bank of England and bankers generally are discounting bills at Two and even at $1\frac{1}{2}$ per cent., but is there a general fall in the value of loanable capital? Can governments, contractors, railway companies, borrow at largely reduced terms? Is capital being rejected by speculation, or is it speculation which is repulsed by capital? The nominal hire for the use of capital is low; but suppose that capital in most cases refuses to be hired at all. We greatly suspect that to an enormous majority of willing borrowers 'Two per cent.' is little more than an ironical phrase. The narrowness of the limits within which the fact of cheap money is literally true, furnishes in a great measure the clue to the fact itself. Capital is plentiful and cheap in

one quarter because in another it refuses to be hired at any price. Capital is cheap, not because it has multiplied, but because it has been concentrated on a given employment. The first impression of infinite abundance and cheapness dies away the nearer we look, and similarly we shall find that a large proportion of the bullion excess in Paris and London dwindles very considerably on closer inspection.

The first impression which the simultaneous excess of bullion in the Banks of England and France might not unreasonably convey, would be that it results from the operation of identical causes in the two countries; that these causes are inseparably connected with the stagnation of trade; and that generally the surplus in question may be taken as a fair measure of the extent to which the supply of capital has increased and the demands of trade fallen off. Such a view would, however, involve a most serious mistake. A survey of the weekly accounts published by the Bank of France incontestably proves that a very large portion of the excess which has raised the gold in the Bank to those £40,000,000 sterling—the 'milliard' of francs which form such an extraordinary feature in the financial history of 1867—is not so much the result of capital lying idle, sulkily protesting against continued political alarms, or timidly waiting for the solution of financial difficulties, as the result of a wide substitution, from one cause or another, of notes for the precious metals in the circulation of France.

Nothing is in some respects more remarkable than the fixed character of the note-circulation in England. The effect of the gravest perturbations of our commerce and banking finance on the amount of notes in the hands of the public has generally been moderate and temporary. There is indeed a well-known ebb

and flow of the notes according to the seasons of the year. The quarterly payments of salaries throughout the country, rent days, harvest time, create certain definite and perfectly calculable fluctuations. But, inclusive of these tidal movements, the total variation in the amount of notes held by the public at one time during the whole period from April, 1861, to April, 1866, did not exceed £4,000,000. The lowest point touched was £19,000,000, the highest £23,000,000. Nor is it difficult to understand this extreme regularity. The suggestion that the immense increase in our commerce might be reasonably supposed to necessitate proportionate additions to the machinery by which it is conducted—that is to say, to the circulation—has been almost exploded, and it is well understood that the relation between the amount of transactions concluded and the amount of notes necessary to conduct them, is by no means one of direct proportion. Since the last crisis less business has been done, but more notes have been wanted to do less work. Nor can it be said that the regularity of the circulation has been forced on the country by an iron system which prevents expansion. Practically, we possess a gold circulation with a supplement of £15,000,000 bank-notes [1]. Resting on the deposit of bullion, this circulation permits expansion as indefinite as our powers of obtaining gold, and our powers of obtaining gold would only be exhausted when the country had nothing left to sell. The limits within which our circulation has moved have certainly not been determined by any currency law, but by the habits of the country at large, by the regularity of our system of payment by bankers' cheques, by the

[1] Vide pp. 3 and 4, notes, as to the present position of the fiduciary issue of the Bank of England.

perfect arrangements of the Clearing House—in a word, by the immense economy in the use of notes produced by our highly developed banking organization.

Contrary, however, to previous experience, the effects of the crisis of 1866 upon the circulation (effects which, according to precedent, ought to have vanished with the subsidence of the panic by which they were caused) have been of long duration, and have indeed continued to this day. The amount of Bank of England notes in the hands of the public rose between £3,000,000 and £4,000,000 in the worst three weeks of 1866, and nearly £3,000,000 of this excess still remain. It is true that the average circulation of the country banks has decreased by about £750,000, naturally creating a demand for Bank of England notes to supply the deficiency. But this circumstance only accounts for a small part of the excess. The remainder, doubtless, is due in part to the collapse of credit, which has not only affixed a stigma to bills, but may to some extent have even affected the good repute of a cheque. When every one suspects his neighbour, recourse may frequently be had to the rude method of payments by bank-notes. And again, notes may even be taking the place of bills in many transactions. Hoarding of notes, as a last reserve, may be another not improbable cause. Such a proceeding would not be very reasonable; for communication is now so quick that, except in extraordinary times, it would appear to be scarcely less safe to keep money in deposit in the Bank of England than locked up in a box at home. But the additional notes must be somewhere.

We have alluded to the excess in the currency of the Bank of England notes, not on account of its

intrinsic importance, though the fact is curious enough when compared with the extraordinary regularity of previous years, but on account of its bearing on our present stock of gold. The excess of notes afloat absorbs an equal amount of the excess of gold in hand. So long as the country continues to require an additional supply of £3,000,000 or £4,000,000 of bank-notes, so long an equal amount of additional gold must be retained by the Bank. Thus when we contemplate the large stock, let us not miscalculate. £3,000,000 of gold, out of the surplus, belong to holders of new notes. They afford no additional strength to the Bank. They have not been left there because there is no employment for them, but because their work is done by the notes.

The fluctuations in the circulation of the notes of the Bank of France have been on a much vaster scale. That circulation has more than doubled in the space of ten years. Between November, 1864, and November, 1867—that is to say, in three years only—the increase was £17,000,000. But how have the French doubled their circulation? By the precise means which are at our command for doubling ours—by the deposit of gold. The French Bank directors, unfettered as they are, except by their own discretion and the inexorable laws of convertibility, have not been so mad as to multiply their promises to pay in gold by nearly 100 per cent., without securing more than a proportionate, nay, almost an equal increase in their stock of gold. If we take their stock of gold in December, 1857, and again in December, 1867, we find an increase of £30,000,000, so that every additional note is fully represented by gold. The accounts of the Bank of France seem to show that the general range of notes unrepresented by gold lay

between £16,000,000 and £20,000,000. We should think that whatever the minimum or maximum may be, the Bank directors in France would not be very comfortable, if more than £20,000,000 of their notes were uncovered by gold.

We have stated these figures as to the French note issue because the situation of the unemployed millions in the Bank of France, which play so prominent a part in relation to Two per cent., cannot otherwise be duly appreciated. We beg our readers' especial attention to the point that of the £40,000,000 of bullion at Paris at this moment, at least £27,000,000 belong practically to the note-holders, and are in substance deposited in the Bank for their account. If the gold is idle, notes are at work instead. The phenomenon of nearly £40,000,000 accumulated in the Bank of France at one time is thus reduced to the spectacle of a goodly reserve of £13,000,000. The rest belongs in fact not to the Bank, nor to capitalists, it belongs to the holders of notes. It could not be removed without placing the currency in jeopardy. It has come in because the notes have gone out. It is idle because the work is being done for it by the notes, more convenient substitutes. It does not contribute to the fact of Two per cent.

To sum up the position of the Bank of England and the Bank of France at the beginning of this year, looking to the amount of bank-notes issued, the two banks were much in the same position as regards unemployed capital. £13,000,000 remained in each bank, an ample, an unusually high reserve, but very different in its aspect from the colossal proportions which, so long as it is viewed from a distance and in a vague light, the mountain of bullion presents.

The extreme abundance of loanable capital anxious for employment at Two per cent., likewise assumes smaller dimensions the closer we look. At first sight, the general impression is conveyed that vast sums of unemployed capital are in vain seeking for remunerative employment, that the supply at the disposal of borrowers of any class is so great, and is pressed upon their coyness with such importunity, that the equivalent to be paid for its use has dwindled to a mere fraction. Alas! if any ingenuous man, deluded by these fond ideas, should hasten to the market to borrow for some great operation for which he has vainly attempted to find funds in the days of financial dearth, he would find himself grievously disappointed. Two per cent. is indeed the rate of discount for first-class bills, and for loans on short terms, on the very safest kind of stocks; but for most purposes capital is actually scarce and dear. Capital has been diverted from other channels, and has temporarily flooded the discount-market into which it has been poured. So far as the operations of commerce proper are represented by first-class bills, so far it is true that capital commands a price less by 70 per cent. than its price in 1864. Up to this point it is true that the difference is immense, and to an extraordinary degree in favour of the borrowers. But these borrowers form but a section of the great aggregate who desire to share amongst them whatever capital may be available for loans.

Borrowers are of various kinds. There are commercial borrowers offering bills of exchange for discount, territorial borrowers offering mortgages, Government borrowers offering stock, railway borrowers offering debentures, contractors offering various forms of bonds, municipal corporations at home and

abroad, joint-stock companies for industrial enterprises, and many others. Nearly all these classes, however, fall conveniently under four heads—commerce, land, Government, and industrial enterprise. Money being at Two per cent., what is the position of each class with reference to the advantages to be reaped from this apparent cheapness? In the year 1864, when money was extremely dear, the rate of interest advanced almost for every class, though temporary borrowers were naturally most severely affected. While bills could not be discounted at less than 7, 8, and 10 per cent., the rise in the price for loans on mortgage, or for railway debentures, was much less rapid or striking, but was nevertheless substantial and decisive. *All* borrowers were paying more. Mortgages are avowedly the least variable of investments, but solicitors were put to their wits' end to renew mortgages at the old rates, and higher charges for the loans which had to be raised, afforded to many country gentlemen an excuse for dabbling a little in stocks. The case of railways was worse. The fatal and inexplicable mistake of sinking the proceeds of temporary loans in permanent works, relying on the tender mercies of the future for the renewal of debentures falling due, has exposed them pre-eminently to the dangers of a rising market. Foreign Governments fared little better. When high rates of interest were to be earned in England, it would have been futile to offer the old terms. In a word, the value of capital was enhanced to all. The scarcity and dearness afflicting one class had not turned to the advantage of another. Famine had not been produced in one quarter by the direction of the supplies to another, in which plenty might have been expected to ensue. The rising price of capital was universally, though

unequally felt; least by those who, like borrowers on land, are most removed from the tropical heat of the financial centre, more by those who move within the temperate zones of debentures and funds, and most by those who, in closest contact with the money market, are exposed to the sudden convulsions which sweep over the regions nearest to the financial line; but no class remained unaffected by the general result.

Let us reverse the test. Has the fall of the value of money been similarly felt by every class? The nominal market value of money has fallen from Seven to Two per cent. To what extent has the fall been as universal as the rise? What signs are apparent of a general retrogression in the value of capital? Bills of exchange, as we have seen, can be discounted even under Two per cent. What is the position of other classes of borrowers? We believe that loans on land are rather more easily procured, but we find few symptoms of other classes of borrowers having participated in the advantages of cheaper money. Most of them have either not improved their position, or encounter greater difficulties than in the days of Seven per cent. The funds of every foreign Government, without exception, which recurs to the English or French money-market for occasional financial help, stand at a lower figure, in most cases at a much lower figure, than at the end of 1864. In England and France the funds are slightly higher. In December, 1864, Consols stood at 91, in December, 1867, at 94½. French Rentes show a similar change. They stood at 65, they now stand at 69. The difference in the yield of interest of these funds bought at their present price against the prices of 1864 is to the English investor about $\frac{1}{7}$ per cent., to the French investor $\frac{1}{4}$ per cent.,

a remarkably small difference in view of the immense changes in the money-market. Our colonies and our Indian empire have also gained a certain advantage. But if we look at the case of those Governments—and they comprise almost all Europe—who are habitual borrowers in foreign markets, we find their funds considerably lower now, when Two per cent. exhibits, but does not offer them its charms, than when high interest everywhere gave their stocks an excuse for being low. The rates at which it suited capitalists, great and small, to lend to foreign Governments in 1864 are not sufficient to tempt them now. Higher interest is required, that is to say, the prices of the stocks must be lower. And so we find them to be. For instance, since 1864 Russian Five per cents. have fallen $2\frac{1}{2}$ per cent. Prussia does not borrow in foreign markets, but her funds are also lower by about 2 per cent. Austrian and Italian securities have fallen in much greater proportion.

An examination of the causes of the depreciation in the value of foreign stock would be out of place. Of course, worse credit lies at the root. But the simple fact is this, that, undeterred by the existence of absurdly low rates of interest elsewhere, the public requires a higher return from investments in foreign funds than when the Bank rate stood at 7 per cent. in 1864. There has been much European trouble since, and most States have been obliged to incur enormous expenditure. But the last two years have not changed the solvency of empires, nor have they been particularly conspicuous for large additions to Government debts. What has changed most is the public mind, which has passed from an excess of confidence to exaggerated despondency. The same object now wears an entirely different aspect. Viewed in the new light, the brightest

colours have become dark spots; and so it comes to pass that foreign stocks, yielding incredible interest, are sold, and the proceeds carried to a bank which allows 1 per cent. on deposits. The competition of one large class of borrowers has ceased.

The borrowing difficulties of railways during 1867 have been so notorious that they require only a passing allusion. Their position throughout the year, thirsting in vain for capital in sight of extraordinary abundance, more than equalled in suffering the tortures of Tantalus. Generally speaking, they have been compelled to forego borrowing altogether, and to pull through, as best they could, without. Money was cheap, but it was not cheap for them. Here and there an isolated company, proudly superior to the troubles of its rivals, has, we believe, renewed its debentures on not unfavourable terms; but practically railways have been obliged to leave the money-market to itself. As for joint-stock companies, and especially those credit companies whose action contributed at least as powerfully as any other single cause to raise the value of money, they too have been driven from the field. If money were really so plentiful, so willing, so eager for employment, as the low hire which it receives would seem to denote, never would the opportunity of such companies have been so great as now. What profits could not be made by borrowing at Two per cent., and by the help of funds thus obtained, supplying the demands and meeting the urgent needs of an immense class, who, if they could only borrow at all, would willingly pay exorbitant rates! But many of the companies have been themselves thrown on their backs. Others are under a cloud. None have the necessary credit which alone, in such a despondent season as the present, would enable them to attract

funds. To them, too, Two per cent. is only a phrase. Their competition in the market has ceased to tell.

That money is at Two per cent. is therefore only true in a very limited sense. We do not simply speak of the literal meaning. The words convey a wrong impression, even if they are intended to denote that the general facilities for borrowing have greatly increased. The facilities in most cases have, on the contrary, been diminished to an extraordinary extent. Never was the public more indisposed to lend. Strange as the statement may sound, it is actually the fact that money is cheap, not because lenders are underbidding each other, but because the greater portion of lenders are unwilling to lend at all. They wish to be quiescent, nay more, they draw in their money from every possible quarter, not with a view to its employment, but with the distinct intention of not employing it. It may be said, 'Surely they must put such funds to some use? They cannot lock them up in their safes.' No; but they carry them to the banks and leave them there at merely complimentary interest, or at no interest at all. They prefer waiting a while. Disappointed by past investments, schooled by a sad experience against the allurements of exaggerated dividends, smarting under the actual losses incurred, they wish to see the end. They want to wait till they can be sure that everything has touched bottom, that all sores have been discovered, that all the rotten parts of our system have been cut out. The immense deposits in the hands of the Bank of France, the Bank of England, and the strongest of our joint-stock banks, tell their own tale. How these establishments are likely to deal with such funds, and what differences are likely to ensue from this employment of them by bankers

instead of by the public itself, or by intermediary establishments, we will endeavour by and by to explain. The important point at this moment is the attitude of those to whom the funds belong, and the displacement, if we may so speak, of investments. What has become of the usual accumulation of savings? Is the present abundance the result of profits and economy? Have we been growing so rich and so prudent that we don't know how to employ all our surplus capital? Not at all. Two per cent. does not result from the abundance, but from the disgust, of capital. Harassed by the misuses to which it has been put, by the disappointments it has suffered, by the impositions of which it has been made the dupe, capital, in high dudgeon, has retired to its tents. The situation of the moment is this: capital is on strike!

Capital is on strike, out of employ! In England it has struck against limited liability; against railways; against promoters, contractors, and engineers; against joint-stock companies of every description; against speculators; partially, against foreign Governments. In France it has struck against the Crédit Mobilier and its satellites; against the system which produced the Mexican loan; against ambiguous utterances in high places; against political uncertainties; almost against the Empire itself. In England it complains of deficiencies of the law, and of the shortcomings of those to whom it had entrusted its fortunes; in France, of the uncertainties inflicted on commerce and finance by the ignorance imposed on the public as to the political event the morrow may bring forth. The causes which have arrested the activity of capital in the two countries are not identical; but they react upon each other, and have much in common. The uneasiness of French capitalists reacts upon ourselves.

The disposition of England to abstain from all enterprise increases French timidity, and strengthens the policy of financial inaction. When English business men cease to be sanguine, French capitalists think that times must indeed be bad. For years past, the more prudent portion of the French bankers have habitually acted on the theory that they were living on a volcano. The events of 1848 were never entirely forgotten; French liabilities never assumed the same proportion as ours. But if, in this respect, the difference is considerable, on the other hand the effect produced by enormous losses has been the same on both sides of the Channel. It is long since it has been necessary to pass such heavy losses to the debit of two countries in times of peace as have been *realized*—we will not say incurred—during the last few years.

The origin of many of the disasters dates farther back; but the losses had not been acknowledged, the bad debts had not been written off. Illusions lasted till the crisis of 1866 dispelled the mist. And these losses are important, not only because they have 'demoralized' capital, in the French sense of the word. They have absorbed national resources, and prevented the natural yearly accumulation of savings. Nothing is more abundantly clear than that the present low value of money cannot be the result of surplus profits. The average amount of the savings of England and France can, of course, never be correctly ascertained. Still, rough estimates have acquired a certain amount of authority, and may serve as a basis for a general opinion. In France the estimate of annual profits or savings available for new investments, fixes the figure at £40,000,000 sterling per annum. In England the amount is supposed to be at least twice as great, and

£80,000,000 is considered to be far within the mark. What has become of these enormous sums? The French, after the fashion of their country, compiled elaborate statistics to prove the mode in which their savings have been lost. They prepared tables exhibiting the amount of home and foreign loans, the foreign railways, and enterprises of various kinds, into which French capital had been put—of course not treating these investments as a loss, but simply as an absorption of so much capital. In the famous inquiry held in Paris in consequence of the attacks on the Bank of France, these statistics were discussed; and the Governor of the Bank of France, M. Rouland, formed—upon the strength of these materials, and on figures prepared in the department of the Minister of Finance—an estimate of some of the absolute losses which France had suffered by various investments.

M. Rouland, engaged in dealing with the question as to what had become of the available capital, of the savings of France, explained the 'swallowing up' (*dévoration*) of capital which had taken place on all sides. Between the years 1852–65, the Imperial Treasury had devoured no less a sum than £120,000,000 sterling. French railways had absorbed £200,000,000, loans to communes and departments had reached £32,000,000, French credit companies and other joint-stock enterprises had consumed £200,000,000. Total, £552,000,000 for twelve years, or £46,000,000 per annum; a larger sum than the estimated total of the annual savings of France. But this was not all. French financiers of the Imperial type were not so narrow-minded as to confine their operations within the limits of their own country. French participation in gigantic foreign loans has caused a further absorption of French capital.

But these figures did not by any means exhaust the catalogue of the engagements of France. The French have had their experience of railways as we have had ours, but with this notable difference. The French railways themselves have been a very great success, whereas on foreign railways there has been a fabulous loss. Up to a certain time every one who had touched railways in France had made money, and railway enterprise rose high in public favour. By a very natural sequence the idea was suggested that similar profits might be realized abroad, and Spain and Italy were chosen as the favourite fields. But the conditions under which the railways were then constructed were totally different. In France the chief risks of construction had been shared by the Government. Abroad all the risks of the enterprise were left to the shareholders. Those risks, whether in consequence of unavoidable circumstances, of deplorable miscalculations, or even something worse, proved to be most serious, and the catastrophe of the Spanish railways negotiated in France assumed dimensions beyond the worst disasters of our English shareholders. M. Rouland estimated the loss to France on foreign industrial enterprises alone at upwards of £60,000,000, of which by far the greatest proportion accrued on railways built in Italy and Spain. The immensity of these amounts seemed to justify us in quoting them as one of the causes which have powerfully contributed to diminish available savings in France.

We have not taken into account the operations of the Prefect of the Seine, which in a few years have raised the debt of the city of Paris to something like £35,000,000 borrowed, to a great extent, by an extravagant and unsatisfactory machinery. It is whispered that even in these days of Two per cent., the city of

Paris has been, indirectly, paying 7 per cent. for loans. We have no need to speak of the commercial and agricultural disasters which have heightened the gloom in France, of short crops of wheat and wine, of the sufferings in the silk and cotton trades, of the losses incurred by France in common with all other countries on the general commerce of the last two years. We have said enough to show why capital is on strike, and why Two per cent. must be regarded not as the result of abundance and of profits, but of the displacement and non-employment of capital.

We will not attempt to measure by figures the losses of England during the last two years. Some misfortunes we have had in common with France—bad crops and unremunerative trade. With us, as in France, no branch of business has been able to boast of its success in the midst of universal calamities, and those have considered themselves singularly fortunate who, though they had not grown any richer, had at least not lost a portion of their wealth. In some disastrous undertakings we have indeed not fared so badly as France, but we have no reason to boast. The aggregate of our losses has probably been as much greater than that of the French, as the aggregate of our capital and its capacities for good and for mischief are greater than theirs. It is needless to specify details, when the general statement unfortunately comes home to everybody's experience. The savings of several years may be required to fill up the gaps which have been made.

The losses incurred have been heightened by our incapacity to deal with the confusion which they produced. It is characteristic of this country that the

tackle is never in order when we have to take to the boats. We are sanguine and go-ahead, and think more of speed, and of the best means of reaching our goal in spite of obstacles, than of preparing an elaborate organization for the possible event of a break-down. Nothing can be worse than the disorder which follows mercantile shipwrecks. The bankruptcy system, private arrangement deeds, liquidation in Chancery, all are equally unsatisfactory. Men of business as we call ourselves, we seem hopelessly baffled as soon as confusion sets in, and the one task in which we seem to succeed least is the reduction of chaos to order. Chaos in railway matters, chaos in all the relations of limited liability, has prostrated our energies and prevented our recovery. Mismanagement in its time of tribulation has discredited joint-stock enterprise no less than its exuberant indiscretions when all went well. Limited liability has been sharply pulled up. The wide channels which it opened for pouring capital into the dearest markets have been blocked for the nonce.

In January, 1865, we called attention to the connexion between the development of joint-stock enterprise as a means for supplying capital to foreign countries, and to the high rate of interest subsisting in 1864. We wrote: 'If money is again to become as cheap as our manufacturers would have it, one of two things must take place. Either the demand of foreign countries for English capital must decrease, or the credit of the companies through whose medium that demand is supplied must break down. The former alternative is very remote. With regard to the latter, it is unquestionably possible that the public, which has invested a certain portion of its savings in foreign enterprises, may be disappointed with the

results, and may withdraw its confidence and withhold its contributions from over-speculative financial companies.... The new field of operation chosen by joint-stock enterprise—that field, the most voracious of all'—seemed to us to have been 'the determining element in the rising price of capital, an influence which, *if not checked by a break-down of credit*, must,' we thought, 'from the very nature of the case, be more or less permanent in its character.' The break-down has, however, occurred. One of the two contingencies, which could alone, we believed, permit money to become cheap again, has actually occurred. The demand of foreign countries for English capital has certainly not ceased, but many of the companies through whose medium the demand was supplied have become discredited. The confidence of the public has been shattered. The conduit-pipes through which the reservoirs of English capital were opened up to foreign borrowers have become blocked by broken promises and disappointed hopes. The chief influence which tended towards a continued enhancement of the value of money is in abeyance on account of imperfections in its organization.

In one respect, indeed, the development of joint-stock enterprise has exceeded the hopes of its most sanguine friends. Its functions were to be double—to collect drainage and to utilize it. As far as its object was to collect every drop of available capital into central reservoirs, it has done all and more than was expected. But many of the reservoirs proved unsafe, and the fields into which the capital, when collected, was poured, turned out, in many instances, most unremunerative. The theory of the system as expounded by the French avowedly contemplated

an increase of national force by the concentration of fractions of capital, which might otherwise not be utilized at all. The concentration has taken place, and even in an exaggerated form. Not only have savings, real available capital, been sucked in, but capital which was not available at all. The world parted with its reserves. Working capital was sacrificed to the craving for speculative investments. Many borrowed money for their permanent regular business, in order to be free to pour their own resources into a joint-stock company or into foreign funds. The concentration was too effectual, the subsequent diffusion very unsatisfactory. Of the actual losses we have already spoken. But the disasters are not to be measured by them. The country has laboured ever since under the absence of reserves. Too often the possibility of creating fresh reserves has been cut off by the necessity of meeting liabilities incurred upon shares which were not fully paid up. In other cases strenuous efforts are doubtless being made to restore the necessary working capital of a business to a normal amount. The process of course involves a continuous sale of imprudent or excessive investments, and, in the absence of any demand for such securities, the fall in prices has naturally been very great. The operations necessary for reconstructing 'reserves' seem to us to be by no means one of the least effective causes of the coexistence of panic prices for shares and stocks with money at Two per cent.

But, it may be said, where are these reserves? Surely the proceeds of the sale of shares and stocks are not locked up at home? They are carried to the banks, and the banks, who thus receive additional capital, might become the organs of its diffusion. In

such a case the position of capital would surely not be changed?

But the change is very serious nevertheless. Bankers certainly employ the funds which have thus been placed in their hands, but such employment is tied down and guided by the strictest canons of orthodox banking.

The transfer of capital from hands which were ready to employ it boldly and speculatively, at high rates of interest, to hands where the most scrupulous caution and anxious forethought prevails, has doubtless contributed most materially to cheapen the rate of interest to borrowers of the highest repute. The nature of the deposits entrusted to bankers imposes a peculiar obligation which is generally most scrupulously acknowledged. Bankers must employ such funds, but in their employment security, not price, must be the first consideration. High premiums ought never to tempt them to run patent risks. Their first object is to be absolutely safe, their next to have available resources for their regular customers. To save a client from ruin they are not unfrequently obliged to run risks which they would rather avoid, but the consideration is not the profit derived from a high charge, but the obligations imposed upon them by the habits and interests of their order. We are speaking of the great bulk of banking-houses, the representative firms. By them, loans on questionable though remunerative securities are absolutely tabooed; for such loans, though they need not necessarily lead to ultimate loss, lead, in four cases out of five, to a lock-up. We need not dwell on the light in which lock-ups are regarded by bankers.

The general result is plain. The public, sick of its previous investments, carries deposits in unprecedented amounts to the strong and careful banks, and the banks only use these deposits by loans to the most

solvent of customers, or in the discount of the safest bills. But the most solvent customers are precisely those who are least likely to want much money, and the best class of bills do not exist to an unlimited amount. Hence the plethora of that particular kind of capital in one particular quarter, hence Two per cent. in Lombard Street, and in the discount office of the Bank of England. But the counterpart to this result is no less clear. For every other kind of business capital was seldom more difficult of access.

If some of the other classes of borrowers, to whom we have alluded, had been still able to avail themselves of the resources of the discount-market by the continued manufacture of a certain class of bills of which the public has lately heard a good deal, the fall in the value of money would probably have remained within narrower limits. But finance bills, a device for opening new channels for securing loans for permanent purposes by the assumption of a temporary garb, have been practically banished from the discount-market, which they had invaded in great force. For a time those who were in search of capital for permanent purposes poached, and very successfully too, on their neighbours' preserves. When railways could not raise funds on their own distinctive forms of securities, such as shares and debentures, when Governments found themselves unable to issue regular stock, when impoverished shipowners could not find capitalists ready to make them an advance on that very critical kind of security—a mortgage on ships—bills were manufactured to take the place of those unavailable forms of credit. Recent disclosures have initiated the public more or less into the mode of proceeding. The financing of a great railway company took

this form, and supplies a conspicuous illustration of the invasion of the discount-market by permanent borrowers. Liverpool has furnished some striking examples of the creation of 'shipping paper,' a class of security viewed with much disfavour by bankers of the old school,—bills different in their very essence from common mercantile paper, as instead of representing property which is intended to be sold, they represent the very opposite, property which by these bills is to be preserved from sale.

Mercantile bills are short-lived. They represent a transaction which in a few months comes to a natural end. Their most common function is to bridge over the interval between the purchases of goods and their re-sale, either in the same or in an altered shape. Foreign bills come under this definition in so far as they are not drawn on demand, but are payable after a lapse of a certain number of days or months. They not only effect a transfer, but they allow a certain amount of time. The theory is that the proceeds of the goods will afford the means to extinguish the bill. Whether new bills representing new transactions will take the place of those which are thus paid off, depends upon the activity of trade. If times become bad, the amount of mercantile paper decreases in proportion. It falls and rises with the ebb and flow of prosperity. Finance bills, on the other hand, are different in both respects. Unlike mercantile bills, they are not intended to be paid off and extinguished when they fall due. Contracts exist for their renewal. They represent transactions spread over years instead of months. And, again, unlike mercantile bills, their amount does not naturally contract when times get bad; nay, the worse the times, the more certain it is that, at any

sacrifice, they must be kept alive. The effect of the competition of such a class of bills with commercial bills proper may easily be imagined. They would naturally bear upon the market with a weight disproportionate to their actual amount. They are known to be poachers, notwithstanding their mask, and have to pay blackmail. But commissions paid every three months for renewals, besides interest fixed at so and so much above Bank rate, spoils, so long as all goes well, the happy recipients for the more humdrum transactions of discounting regular bills. For the latter, accordingly, higher rates are also exacted, and the briskness of the competition, even more than the actual increase in the amount of bills, raises the rate of interest to all.

On the other hand, the system of financing by bills, of which the renewal was promised by contract, but depended on the willingness of others who were not parties to the contract, to discount the new bills, was absolutely certain to lead to great financial disasters. The crisis of 1866 struck a blow at credit under which our whole system reeled and staggered. The soundest portion of our trade needed a long time to recover; other portions have not recovered yet, though they are slowly and laboriously progressing. But as for the class of bills which we have described, they have vanished altogether, in many cases involving drawers, acceptors, and discounters in one common ruin. The transactions on which they were based were broken up; the nature of the bills was revealed, and those who had been driven to the use of this financial device—because, even in better times, they could not find money in the ordinary way—were utterly unable to pay the bills, when failures on all sides shut off the possibility of renewals.

The disappearance of this class of bills naturally created a remarkable reaction in the money-market, where their presence had been such a source of mischief. The amounts were large in themselves. We have heard that the disappearance of the bills of one large group of contractors alone has relieved the discount-market of an incubus of eight millions' worth of paper. But the relief experienced is not to be measured by the amount withdrawn. No class of securities had played so great a part in running up the rate of interest. The stakes for which all concerned were playing were so high that the difference of a few pounds per cent. in the rate of discount scarcely weighed in the scale. Mercantile bills have now been freed from a competition against which they could hardly hold their own. Their turn has come. The borrowers for permanent purposes no longer absorb a large portion of the resources of the temporary market. They have retired, not because their demands are satisfied, but because their demands are no longer entertained. They leave the discount-market to its normal customers, and are shut out themselves just at the time when unwonted supplies, diverted from the field of permanent investment, are pouring into that market for short loans which they are compelled to abandon. That under these circumstances the rate of discount, in its literal sense, should have fallen unprecedently low, is no less natural than that difficulties in the way of railways and every kind of permanent enterprise should be exceedingly great. Viewed in connexion with the attitude of capital turning its back on almost every class of borrowers; with the reconstitution of reserves; with the collapse of many of the channels by which capital used to be carried into foreign markets; with the temporary

deposit of idle money in the hands of the banks; with the peculiar employment given in the discount-market to such spare money by the bankers in whose hands it is placed; and, finally, with the withdrawal from the discount-market of whole classes of bills, which used to weigh upon it with especial heaviness—the co-existence of Two per cent., with much financial embarrassment and the depression of every kind of stocks and shares, ceases to be the glaring anomaly which it appeared at first sight.

Another difficulty, however, must suggest itself to every mind. Money, we have seen, is flowing into channels over which commerce has almost exclusive command. Why, then, does commerce not make use of its opportunities? Why does not speculation in goods and produce revive? Why do not our merchants and manufacturers resume their wonted activity?

That there is little or no *speculation* in goods is beyond a doubt; and that trade has been generally unremunerative is also very certain. But it is not so clear that the amount of our international transactions has been so unsatisfactory as the simple totals of our imports and exports would lead us to suppose. We repeat, these totals often require to be greatly modified. Large additions to our international transactions need not always be a matter for unmixed congratulation. If we had lost all our cattle and all our corn, an increase in our imports solely due to such a cause would doubtless be so far satisfactory that we should have procured the means of subsistence and been able to pay for them, but highly unsatisfactory as a register of prosperous circumstances. On the other hand, a fall in the price of the raw materials by which our leading manufactures are fed, might lessen the value of our

imports, but be in itself a most gratifying event. The aggregate value must always be most carefully compared with the aggregate *quantities*. If we consume the same quantities of tea and coffee, sugar and tobacco, but pay the producers a lower price, the first appearance of our tables of imports may be unfavourable, but we have not much reason to complain. Again, it is interesting to know whether any diminution of our foreign trade is due to causes over which we ourselves have control, or to accidents affecting our customers abroad. It is perfectly conceivable that our business might be suffering a temporary check, not in consequence of any crisis at home, of difficulties in our labour market, indeed of any disqualification on our part to compete successfully for our lion's share in the commerce of the world, but exclusively on account of embarrassments besetting our foreign customers, or on account of suicidal tariffs abroad. The United States might be more responsible for our diminished exports than trades' unions at home. It is evident that a host of questions may be partially answered, not so much by the totals, as by the component items of the commercial statistics at our command. What is the real key to the apparent serious decline in our trade? Are we eating and drinking less? are we producing and selling less? Have our workshops been more idle? Have strikes had their effect? Are we ceasing to supply markets where we find our rivals ensconced?

At first sight, the figures for 1867 certainly look gloomy enough, and the first separate item which strikes the eye deepens the unfavourable impression. We start with a decline in our exports and imports of £18,000,000; but the significance of the amount is

greatly enhanced, when we find that, but for an excess of £10,000,000 in the value of grain imported in 1867—that is to say, but for extraordinary purchases abroad to fill up a gap caused by a disaster at home, purchases which can scarcely be taken into account in any comparison between the relative movements of trade in two successive years,—our import lists for 1867 would have shown a much larger decline. Accordingly, if we wish to measure the full extent of the alleged diminution in our trade, we must strike out the excess on corn, and look a deficiency not of £18,000,000, but of £28,000,000, fairly in the face.

But if the item of corn thus heightens our apprehensions, the item of cotton changes the whole aspect of affairs. The price of cotton fell 30 per cent. during 1867, causing by its fall a double effect. Not only was the aggregate value of our imports reduced by the cheapness of the most important raw material with which foreign countries supply us; the cheaper raw material lessened the cost of the manufactured article. If the price of cotton had been the same in 1867 as in 1866, our importations would have been worth £14,000,000 more, our exports £8,000,000 more, than we now find them. The lower *value* of cotton alone, irrespective of quantities, has reduced the total of our imports and exports by the large sum of £22,000,000.

The price of cotton stands now almost where it stood before the great convulsion. Huge fortunes melted away as it fell. Whoever held stocks felt the ground giving way beneath his feet. No branch of trade connected with the article has been exempt, and we have heard the saying in Liverpool, that 1865 ruined the speculators, 1866 the merchants, 1867 the producers. But be that as it may, apart from individual suffering and

local catastrophes, the cheapening of the raw material of our chief branch of industry is, in itself, not a drawback, but a great public benefit. Not only is the cheaper price of the commodity an advantage in itself; the greater security which low prices inspire, imparts animation to trade. Manufacturers are relieved of their chronic fright of remaining saddled with goods made of dear cotton when their neighbours may be able a few weeks later to buy their raw material at two-thirds of the cost.

The reduction in the *quantity* of cotton imported amounts to a sum of £6,000,000, which, together with the £22,000,000 due to the cheaper price, accounts for the whole of the apparent decline in our international transactions, even when that decline is increased by subtracting the excess on wheat. It is not true, therefore, to say that we have been going back. We have simply stood still.

The decline in the quantities of other raw materials than cotton is probably more due to our home trade than to our international relations; for our exports do not show a corresponding reduction in several cases, where, from the smaller import of raw material, we might at first sight have expected a falling off; indeed, there is nowhere any decline which could for one moment be considered important by the side of the large excess in the cotton goods which we have sent abroad. Why the Australian ladies have taken a million's worth less of 'millinery' and apparel, gallantry forbids us to inquire. Otherwise on no single article of export do we find any reduction as large as £200,000; in some there is a slight, in others a decided augmentation. In the metal trade we have continued our advance; and we rejoice to find that under the head of machinery, notwithstanding con-

tinued rumours of irresistible competition, we have not only held our own, but gained considerable ground. Trade is undoubtedly miserably depressed, and there are evidences of stagnation which no one can gainsay; but nevertheless a closer review of our exports seems to exclude many of the disheartening inferences, and to forbid many of the gloomy prophecies, which the first aspect of the figures in the tables of the Board of Trade seemed peremptorily to enforce.

The changes of direction which our exports have undergone confirm the more hopeful view. They will be found to be highly suggestive. It might have been supposed that the ceaseless anxiety as to European war would have frightened both our continental customers and ourselves; and that *their* fears of heavy commitments just before a period of trouble, and *our* fears of unpunctual payments if war should break out, might have restricted our continental trade; while, on the other hand, we might have consoled ourselves by extending our operations to countries as far removed as possible from the reach of European calamities. Nothing, however, would be farther from the truth; for we have greatly increased our trade with our nearest neighbours, and curtailed it with America and the antipodes. In Europe, barring insignificant fractions, we have either stood still or advanced, and we have advanced most with our very best and most punctual customers. Holland, France, and Russia together have increased their purchases by £2,000,000, and Germany by the large sum of £5,000,000! Clearly, if there is a hitch in our trade, we cannot hold Europe responsible. Here at least we have not yielded an inch to the presence of rivals, nor withdrawn on account of troubles at home. Our exports to European countries, notwithstanding the

lower value of the goods, show a net excess of £5,000,000. Africa raises our surplus from £5,000,000 to £6,000,000, and though in Asia a reduction is threatened in China and Japan, India sweeps in magnificently with £1,000,000 increase, and we conclude our transactions with three-quarters of the globe still with a rising surplus. In South America, the first serious blow is dealt. The Brazilian Empire is a heavy defaulter, and leaves us in the lurch for £1,500,000; but Peru and Chili, plucky little Republics, come to the rescue, and we pass northwards still with our excess of £6,000,000. We come, however, to a dismal region. The whole group of countries surrounding the bay of Mexico are under a cloud. New Granada, still quivering under the last of her perpetual revolutions, Venezuela, publicly and privately as impracticable a debtor as any in the world, Mexico, utterly demoralized and impoverished, have, together, purchased less goods by £1,500,000. No countries take longer credits; from none is the recovery of the value of goods sold a more hopeless task; and that *they* reduce our surplus to £4,500,000 is neither a great calamity nor, in times like these, an unfavourable sign. But at our next step we encounter a great disaster. The United States at one blow sweep the whole of that surplus away, and leave us with an actual deficiency. Their commercial disorganization is bearing its natural fruit; their tariff does its intended work. The expansion of our trade in so many quarters has been neutralized by its contraction in America. Our exports have declined, not from any disaster for which we ourselves are responsible, but on account of the terrible ordeal through which the United States have passed, and the suicidal policy by which they attempt to repair its ravages.

Our own North American colonies follow up the blow; they raise our deficiency to £1,500,000, and Australia completes the work. No country has suffered a more severe commercial collapse. Next to the United States, it is most accountable for any decline in our trade; but while we deplore the gap thus made, it is essential to remember that here, as in the case of the Americans, it is our customers and not we who are at fault. The States, the North American Provinces, and Australia change an excess of £4,000,000 into a deficiency of £6,000,000.

In several respects, then, the result of a bird's-eye view of our export trade appears to us to be not unsatisfactory. Where a decrease has occurred, it seems to have been due to extraordinary and temporary causes, but where we have advanced, we have found no extraordinary circumstances, and may hope that the expansion is normal and regular. That Europe, where our clients are most solvent and most prompt in payment, and where, if anywhere, we might expect to suffer from the successful competition of dangerous rivals, should have bought more from us than ever before, is peculiarly significant. An increase of exports may sometimes be the result simply of a desperate effort. Unable to get rid of their stocks, manufacturers sometimes consign them as a forlorn hope to the Far East, in order, if they cannot sell, at least to procure an advance of money on their goods from the firms to whom they entrust the sale. But there is no great increase in our trade with the East. Germany, of all countries, has improved our commercial statistics most, and generally we have traded less with countries at a distance and more with those near home. Nothing, indeed, can be more natural, in the prevailing state of distrust and

uncertainty, than that men of business, thoroughly discouraged as they are, and unable to shake off the despondent impressions left by an unprecedented crisis, and continuously threatened by the probability of political troubles, should avoid transactions into which credit largely enters, and which will absorb their resources for a long time in advance, preferring to trade, even at much diminished profits, with customers who are within reach of a railway or a telegraph, and from whom punctual payment may confidently be expected.

The story of the Board of Trade, fairly precise, as we may presume it to be, as far as regards the volume and the direction of our international trade, is, naturally, silent as to the *results* of the stupendous transactions which it records. If the bulk has been great, our manufacturers cannot have been idle, and wages must have been earned; but as to the profits realized, no inferences can be drawn. Neither merchants nor manufacturers at once arrest their trade because their last venture involved a loss. The momentum of commerce is too great to admit of a sudden or even a rapid check. Wars, revolutions, financial panics, catastrophes of every kind, may occur, but many months will elapse before the break begins to tell upon the headlong speed of our commercial course. The system of credit, coupled with the vast business transacted with countries beyond the reach of sudden action, binds the free will of capitalists and merchants always for many months, sometimes for a year, in advance. Come what may, contracts must be fulfilled, credits be honoured, goods be paid for, and the loss endured. It might indeed be said that the time which has elapsed since the crisis of 1866 has been so long that ample oppor-

tunities have been given for winding up pending engagements, and that the effects of precautions taken when the crisis was most violent, must have made themselves felt long ago. The contraction of business would surely, it might be said, have been infinitely greater if new operations had not followed on the liquidation of the old. But even as regards new business, merchants and manufacturers are not entirely free agents. The desire for curtailment cannot be pushed too far. A staff cannot be discharged, works cannot be allowed to stand still and become disorganized, nay more, clients and customers cannot be suddenly abandoned, the goodwill of a long-established connexion cannot be sacrificed, because personal convenience and the interests of the moment make all business undesirable.

Nor can our foreign commerce be considered entirely apart from our home trade. They have too much in common for one to be prostrated without some sympathetic suffering on the part of the other; and we certainly believe that all the financial misfortunes of 1866, the terrible disasters of bankrupt companies, the collapse of railway credit, the disappearance of dividends, the discharge of a vast array of middle-class employés, the diminished resources of countless families, the excessive dearness of bread, have produced a cessation of buying which justifies the assertion of many engaged in the home trade that for forty and fifty years, times have not been so bad. Such stagnation may drive them to divert goods intended for sale at home into the foreign market, and those habitually engaged in the foreign trade may find themselves undersold. Meanwhile everybody is disheartened. Prices have universally fallen, and in a falling market no one will lay in stocks. Besides, nothing is more

infectious than despondency. The stimulus of cheap money is of little avail in comparison with the dismal influences under which our home trade seems hopelessly cast down.

Clearly, the present position of the home trade must react upon all other branches, and greatly diminish the chances of profit. At the same time wheat at 70*s.* is in itself enough to enforce most stringent mercantile caution. But other reasons remain for the reign of Two per Cent. The financial needs of commerce have been reduced to a minimum. When prices are exceedingly low, when, consequently, not only the cost of goods on their homeward or outward journey is greatly reduced, but the stocks of merchandise absorb less capital, and when the stocks themselves of these cheaper goods dwindle to a minimum, it is clear that for an equal amount of business less money, much fewer loans, will be required. Add the circumstance of shorter credits being granted to foreign customers. The financial world has drawn in its forces from outlying regions and concentrated them at home. Money is in vain offered to commerce on cheaper terms; for low interest can do no more than increase profits, it does not remove the danger of placing borrowed money beyond reach of recall. Merchants are at present like beaten troops. They have lost confidence in their star. Their reverses have been so serious, so continuous, that they despair of success, and we believe it difficult to exaggerate the half-heartedness and gloomy feeling with which trade is now carried on. Business cannot be stopped, but it is pursued without confidence or satisfaction. We need hardly say that continental politics largely contribute to prevent the slightest favourable reaction. So long as European affairs are simply settled by arrangements

from hand to mouth, commerce will follow suit and only provide for the barest necessities of the day. If the aspect of politics abroad were materially to change for the better, British trade might, by degrees, overcome its despondent tone, forget its reverses, and begin on a sounder footing with every hope of success. It will have a long start over other kinds of enterprise for which the machinery of limited liability is preferred, as the requisite repairs in the latter system cannot be made without a lengthened delay. For some time to come, commerce will clearly be able to obtain loans on its own terms. But it would be a fatal error to mistake concentration for abundance. Our forces have not been increased, but we have them more in hand. The demands upon us will not be diminished, they are only kept in suspense; and when confidence once revives, when the impressions of 1866 fade away, when the state of Europe once more appears to offer a fair chance of tranquillity; when, if such an assumption at the present moment is even hypothetically admissible, the machinery for supplying foreign countries with English capital is again at work, —then it will be found that those untold millions, which culminated in Two per cent., were little more than the limited reserves of a limited class, important not from their amount, but from their concentration on a given spot, where, entrusted to agency most scrupulously cautious, they were offered for the use of commerce, but offered ineffectually, on account of the memory of losses, which a year had been insufficient to efface, and of the apprehension of European troubles of which the most confident prophet would not dare to forecast the end.

OUR CASH RESERVES AND CENTRAL STOCK OF GOLD

Introductory Note

The following address is separated by twenty-three years from the preceding article; but it finds its place fitly here, as it deals with a period of similar monetary disturbance. It was delivered about two months after the disastrous Baring crisis which occurred in the year 1890. The circumstances which convulsed the City at that time are still too recent to render it necessary for me to give any further account of the nature of the catastrophe in this Introductory Note than will be found in the address itself. Suffice it to say that a day came in November, 1890, when, owing to causes which it is unnecessary to recall, the great house of Barings realized that, unaided, they could not meet their engagements. The scale of their liabilities was such that their actual failure would have meant ruin to the monetary world. The situation was of world-wide import.

Under these circumstances the Barings laid their books before the authorities of the Bank of England. There was a large deficit between their assets *realizable* for immediate purposes, and their liabilities which had to be punctually met. On the invitation of the Bank of England the great banking and discount houses came together and guaranteed the deficit on the Bank of England undertaking the liquidation. So ready

were the great magnates of the City to save the credit of London, and to avoid the impending disaster, that the offers of guarantee, it is said, amounted to much more than the necessary sum.

The liquidation was successfully concluded. With the time afforded by the guarantee, and with the prudent realization of the assets of the firm and of the private fortunes of its members, all liabilities were met, and no creditor incurred any loss.

It was long before the agitation in the City, and indeed in all trading centres, subsided. I was Chancellor of the Exchequer at the time. It was clear to me that one of the main causes of the crisis was the insufficiency of banking reserves in the widest sense. It was borne in upon me, too, that our central stock of gold was small in comparison with the weight which it had to bear in critical times. Accordingly, I set to work to see whether any scheme could be devised which would strengthen our currency structure for times of emergency.

In one direction I seemed to discern a possible means of securing my object if cautiously handled. Suggestions for the issue of £1 notes were in the air. A portion of the public—to a greater degree in the provinces than in London—were, for various reasons, not only prepared for, but anxious for the introduction of this new form of currency. The £1 note had high financial authorities in its favour. A prominent member of the House of Commons, Mr. William Fowler, had introduced a Bill on the subject. I planned an attempt to give the public, of course entirely at their option, the opportunity of using £1 notes instead of the sovereign as part of the active circulation. Two-thirds of the gold thus set free were to be retained as security for the notes, but were to be kept as a separate

reserve, augmenting the stock of gold in the vaults of the Bank of England. This separate reserve was to be utilized, in case of emergency, under the most stringent conditions as to rates of interest, in lieu of the very unsatisfactory expedient offered by the suspension of the Bank Charter Act.

I have thought it useful to supply this bare outline of my train of thought here, as it will enable the reader to follow more easily the explanation of my plan which I gave in a speech at Leeds. The speech itself was delivered extempore and in a more rhetorical form than the articles which I wrote for the *Edinburgh Review*; but it could not be converted into a more careful or scientific exposition without being entirely rewritten. Thus I have confined my revision to the removal of obvious blemishes and to some condensation and rearrangement in the interest of lucidity.

OUR CASH RESERVES AND CENTRAL STOCK OF GOLD

Speech delivered at a Banquet of the Leeds Chamber of Commerce, January 28, 1891

Gentlemen, you will forgive me if I avail myself of this not very appropriate occasion to put before you some considerations which I think may not be unworthy of your attention, and which are concerned with some very serious aspects of our national, commercial, and manufacturing life. I am anxious to speak to you upon matters which cannot fail to be interesting to every man who is engaged in commerce and trade. I wish to address you upon banking reserves, upon currency, upon the question of the attitude of this country with regard to its enormous liabilities and its means to discharge them in a manner worthy of our great reputation, and calculated to maintain that splendid fabric of credit which has done so much to promote the prosperity of the people and to command the admiration of the world. You will admit these are not topics which interest a section only of the community. They touch questions on the satisfactory solution of which the sound condition of our commercial existence depends.

Your President has alluded to the times through which we have passed; to the state of things which in the months of November and December alarmed the country and created a feeling of tension such as has rarely been witnessed. No fertile imagination could

exaggerate the gravity of the crisis; and if I attempt to bring home to those who are listening to me now its serious nature, I do so in order to accentuate the extreme importance of their keeping their attention rigidly fixed on the necessity for soundness in our banking system and soundness in our currency transactions. I doubt whether the public has thoroughly realized the extent of the danger to which what is called the 'Baring crisis' exposed us all. It was not a question of a narrow circle of financiers or traders. The liabilities were so gigantic, the position of the house was so unique, that interests were at stake far beyond individual fortunes, far beyond the fortunes of any class. We were on the brink of a crisis through which it might have been difficult for the soundest or the wealthiest to pass unscathed. It was a time when none who had liabilities or engagements to meet could say how they could meet them, if a condition of things were to arise under which securities could not be realized, produce could not be sold, bills could not be discounted—a condition under which there appeared an absence of sufficient cash to discharge the liabilities of the general public. That was the position at home, and I tell you what was at stake—You ran the risk of the deposition of London as the banking centre of the universe. You ran the risk of a fatal blow to English credit, and of the transfer of much of our business to other European centres, if such a far-reaching catastrophe had occurred as you were on the eve of witnessing. I cannot exaggerate the danger, the immediate danger, to which this country was exposed at that time; and we are under a deep debt of gratitude to the Bank of England for the action it took, action which enabled us to tide over the crisis.

We were not only faced by a banking danger.

The mercantile and producing classes were threatened as well. The situation would have been brought home to you clearly enough if banks who held your deposits, banks on whom you depended for your discounts, who supplied you with the means of carrying on that active trade for which this town is renowned — if these banks had been crippled; and crippled they would have been if the crisis had not been warded off. But beyond this, the public should understand that it is through credit that all the raw materials on which the life of the people depends, are moved. How do you move the cotton from America which is to employ the men of Lancashire? How do you move those crops upon which the people depend for their sustenance? How do you bring to these shores the various products of the soil of America, of Africa, and of Asia, without which we should scarcely be able to exist? You manage all this through a gigantic system of credit the ramifications of which extend to every clime, to every country; and if that credit once broke down I do not know how crops would be moved or how produce would be brought from other countries to this. Let me insist upon this point. Supposing that gigantic failures had taken place, men in New York would nevertheless wish to continue to send cotton to this country as usual. They must be paid for the cotton, or they must *trust* to be paid for the cotton. What is the ordinary means of sending the cotton to this country? By bills on London firms. But to sell those bills you must have buyers, and for buyers you must have men who would have confidence in the credit and solvency of London firms; and if that credit had gone, how would it have been possible to secure the normal movements of produce from various coun-

tries to this? Simply by shipments of gold, and by no other means. Yes, you had securities, but who would buy them at that time? Yes, you had assets, but men stood in the centre of their assets unable to realize them, eager to sell, but unable to utilize this wealth for the payment of their liabilities; and so men trembled for their honour, for the structure which they had built up through scores of years, wondering how through the dangers which were surrounding them they would be able to maintain their own fair fame, and how the greatest of the great houses would be able to survive the storm.

I tell you you have escaped from a catastrophe to which the famous catastrophe of Overend & Gurney would have been child's play. You have escaped from a catastrophe which would have affected every town, every industry; to use a common phrase, you have escaped 'by the skin of your teeth.' Pray understand that, if I place before you the dangers to which the nation was exposed, I do so in order that we may see what was wrong, and consider whether by prudent courses such dangers may be averted. Well, I ask you, what were the measures taken, what saved the situation? In one sense I have told you already. It was saved in part by the capacity of those who were governing the Bank of England at the time. But what measures were taken in view of the probable situation when the public should hear of the danger in which the great house of Barings was involved? Knowing the panic that might ensue, knowing the rush that there would be on the reserve of the Bank of England, the directors took a preliminary precaution by extraordinary means—for ordinary means would not have sufficed—they obtained £3,000,000 of gold from

the Bank of France and £1,500,000 from Russia. For this course we depended in part on the goodwill of the authorities of the Bank of France. Paris was interested in saving the situation. Let there be no mistake about that. A crisis such as might have occurred in London could not have failed to have its counterpart in Paris and Berlin, and Paris would have suffered grievously if the catastrophe had not been avoided. But, nevertheless, we can frankly acknowledge the prompt friendliness of the Bank of France. The £3,000,000 of gold were at once dispatched to the Bank of England, and brought an element of strength at an important moment. Then the Governor of the Bank called together representatives of the great banking institutions and of other leading firms, and secured a guarantee which enabled them to take action to save that credit which it was so essential to save at that moment, not the credit of the Baring firm, but the credit of London, the credit of England; and I rejoice to think that the credit was saved by the spontaneous efforts of the banking class itself.

Voices were not wanting which gave utterance to the view that it was the duty of the Government to intervene, but I should have been sorry to have had to come forward in the House of Commons and to say that two or three years ago, when there was a panic in Paris through the breakdown of a big establishment, the great banks of Paris came together and saved the situation, but that here in London it had been necessary to invoke the action of the Government. I should have been ashamed if there had not been sufficient patriotism, sufficient public spirit, and sufficient go in the great financial institutions of London to meet such a crisis under a wise lead. That wise lead was given by the Governor of the Bank. What you

want on these occasions is a lead—you want a man. You want a man to come forward and say, 'You all must do your duty.' There was a possible temptation to the banks, each one to look to itself and to aggravate the crisis by calling in all its money, by refusing accommodation to customers, steps which would have intensified the existing anxiety. But the temptation vanished in a day; it vanished when it was powerfully put to the various banks and financial institutions—'Here is an occasion when, putting aside any timid counsels and isolated action, you must come forward to endeavour to rescue the credit of London, not only to save a firm, but to save the supremacy of British credit.'

Well, it was done, and the situation was saved. I have shown you how we got out of the difficulty. Two things were necessary—you had to find cash, that is to say, gold, and you had to restore general credit. The gold was found; the reserve was increased by the efforts of the Bank of England, and credit was saved by the action, the joint action, of a number of great firms. But now, when the crisis was over, men began to ask themselves, 'Why should we ever have got into this difficulty?' Some said, 'It is the fault of the Bank Charter Act.' Others said, 'The capital of the Bank of England is insufficient'; and others said, 'There is not sufficient elasticity in our currency system,' which means to say that the printing-office for printing bank-notes is not put into sufficient activity in dangerous times. Now, clearly what is necessary to get men out of a difficulty when they have undertaken more liabilities than they can meet, is to have cash. It is cash that is wanted. In the case of foreign liabilities—and on this occasion our foreign liabilities were enormous, not only the foreign liabilities of one firm, but the

foreign liabilities of the nation—on these occasions bank-notes are of no sufficient avail. What you want is gold which will pay your liabilities in foreign countries; and the printing-press at a moment of this kind is a danger, and not a resource. The public generally should understand that they will lean upon a reed which will break in their grasp, that they will be encouraging the most dangerous of ideas, if they think that any elasticity or increase in the currency would have saved them from such a danger as that to which they were lately exposed. Why, what is wanted at such a moment? You want men who have ready cash with which to step into the breach, not institutions which have at the moment simply to realize everything they have got in order to meet their own enormous liabilities; you want banks and firms with some reserves who may come to the assistance of the community at large, and prevent a general breakdown by purchasing a portion of the securities and taking over a portion of the assets of those who, by over-trading, are helplessly and hopelessly involved. But such help was not forthcoming on the late occasion. What was apparent, to my mind, was this—there were not sufficient banking reserves in the country.

I must give utterance to a strong conviction that the present scale of the cash reserves of private banks and of other financial institutions is inadequate to the necessities of the country, too small as compared with the gigantic liabilities which are incurred. The figures are stupendous. Ordinary mortals are unable to understand astronomers when they tell us the distance in miles which we are from the sun, and ordinary mortals can scarcely grasp the hundreds of millions which enter into the transactions of our great joint-stock banks. I wish to insist on the point that,

in times of crises, reserves are essential, and that it is of supreme importance that all the great banks of the country, at the moment when a crisis comes, should be able to afford relief to their customers rather than that they should feel at that very moment bound to curtail the facilities which they ordinarily give. It is all very well for banks to give facilities to their customers in good times, but a customer looks to his banker for facilities when the pinch comes, and if, when the pinch comes, the bank itself is obliged to draw in its resources, to call in money from those to whom usually they are glad to lend it, it disturbs all mercantile arrangements. Such a bank is really not assisting the country, it is thwarting the interests of the banking and trading communities. Listen to the figures. The *Economist* estimates the total deposits on current account held by all the banks in the United Kingdom, excluding the Bank of England, in July, 1880, at from £470,000,000 to £480,000,000; and in July, 1890, at from £600,000,000 to £620,000,000, an increase in those ten years of £130,000,000. I cannot tell you to what extent the banks in the aggregate increased their reserve in cash in proportion to the enormous increase in their liabilities; but I can give you some indication by the published accounts of some of the largest banks. According to the *Economist*, the liabilities of eleven large banks were, in 1879, £126,000,000, while their cash in hand, or at the Bank of England, amounted to £16,200,000. In 1889 the liabilities had risen to nearly £170,000,000, an increase during those eleven years of £44,000,000; but the cash balances had risen in the same time only to £17,500,000, an increase of £1,300,000. Observe the operation—£44,000,000 increase in liabilities to depositors; increase in cash reserve to meet them, £1,300,000. I hope I shall not

give offence, but I say I do not consider that a perfectly satisfactory position. On further examination, I find the proportion of cash to liabilities had fallen during the ten years from 12·9 to 10·3, a decrease of 2·6 on 12·9, which is about one-fifth of the whole reserve. In the case of one bank the percentage of cash to liabilities had sunk from nearly 22 per cent. to 12 per cent., and in another case, where the percentages had fallen from 10 per cent. to a little over 6 per cent., the cash balance against the total liabilities of £9,000,000 was less than £600,000. A good deal of public attention has been called to these facts. Remember, the term 'reserves' means cash in the till or cash at the Bank of England. Some banks include 'cash on call,' but cash on call is no reserve in the general sense so far as the community is concerned, because when you call in your money on call, you may be embarrassing another person, while relieving yourself. Let the public understand this—there is only a limited amount of money unemployed. If everybody employs money up to the hilt, there will be no unemployed money to come to the rescue in time of crisis. Money on call is a valuable asset, but it is not an asset which constitutes a reserve useful to the general interests of the community at large.

Now the banks, I am told, have taken up this position—viz. that it is no use to hold large reserves, as they would simply be putting their money into the hands of the Bank of England, with the result that the Bank of England would then earn interest upon that money. But look at the late crisis. What was the establishment upon which the whole community relied when the time of crisis came? It was the Bank of England, and the bankers themselves had to strengthen their reserves at the Bank of England, and were not

able to contribute to that general alleviation of the situation which was brought about by the Bank of England. I am most anxious to avoid saying anything which may reflect upon our great banking institutions. They have done immense service to the country. They have brought together in their deposits capital which, being lent out again, has had fertilizing influences, and has assisted the commerce and the industry of the nation. But it is a false and dangerous system, to rely simply upon the aid which the Bank of England can give in a crisis, and to take no thought how to meet the difficulties which might arise, except by such action as the Bank of England may possibly take, with the Government, as they think, behind it.

I should be glad to be able to devise some system—and I am engaged, with the assistance of the authorities of the Bank of England, in devising some actual scheme—by which we may strengthen the permanent reserves of the country, by which we may secure the possibility of giving greater help in emergencies, and may prevent some of those panics which have too often threatened our commerce. But we shall only aggravate, we shall not alleviate, the position, if any relief given in the shape of a second reserve—for it is of a second reserve to be managed by the Bank of England I am thinking—should have the effect of inducing the joint-stock bankers to trade even further up to the hilt than they have done hitherto; if we should encourage the belief that there is safety at the centre, and that therefore everybody may invest his deposits to any extent, and, instead of holding his own reserves, may quietly rely on the action of the Bank of England and the Government. Unless I saw some disposition on the part of the bankers to take their share in any reforms that may be necessary, unless

I saw a disposition to assure us that we are not again to be at the mercy of foreign countries—that we are not again to be obliged suddenly to import gold from abroad by special appeals for aid, that we shall not again be at the mercy of such circumstances as have lately occurred—I should hesitate to act, for I hold that the great banking institutions are bound to take their share in endeavouring to bring about such a result.

The public has some *locus standi* in this matter. In former times the Bank of England was an institution so vastly greater than all the others that it was able to command the money-market and impose its terms. Those times are changed. There are two banks who hold between them nearly £80,000,000 of deposits against the £34,000,000 deposits of the Bank of England. The position of the Bank of England is changed in that respect. It has still the duty of endeavouring to meet all the necessities of a crisis; it still fills such a position that the whole of the country looks to it to extricate it from a difficulty, but it does not command any longer the same proportionate resources which it commanded in the old times. It is unable at this moment, in the face of the £600,000,000 of deposits entrusted to other banks, to take up the same position as in times past.

Several suggestions for dealing with an acknowledged evil have been made—for instance, that, in cases of an excess of deposits and liabilities beyond a certain line, the banks should have to pay a certain tax upon that excess, as is done in some foreign lands. I will not say what view I hold upon such a suggestion, but in the most friendly spirit I would indicate to the banks that the public have an enormous interest

in the proportion of the reserves which they hold. Remember how closely banks are bound together. Remember, too, the fact that the soundest and strongest banks may be making the smallest dividends because they do not over-trade, whilst the more imprudent banks who invest their deposits so deeply that they leave but a small reserve, are able to show much larger dividends to their shareholders. Why do the latter think they may take this course? Because they may have the conviction that the failure of any one of these big banks would be such a disaster to the whole community that the other banks would be compelled to come to their assistance, and to rescue the offending bank from the consequence of its offences by themselves undertaking a part of its liabilities. I say this situation gives the public a *locus standi*, and in the same way as the Government has had a *locus standi* with regard to shipping, and has declared that excessive cargoes shall not be carried because they are dangerous to the safety of the public, so the question might arise whether the public might have the right to declare that no excessive cargo shall be carried by banks receiving deposits—that such business shall be conducted in a manner which shall be considered safe by the community at large.

One measure I think may fairly be taken, which the public would have a right to demand, the more frequent publication of accounts. At present Parliament has exacted either yearly or half-yearly accounts. Parliament would have a perfect right to demand that accounts should be published at more frequent dates. The public have the advantage of the publication of the Bank of England's Return. It is a barometer —an important barometer—to all men of business. But the barometer is imperfect. It would be more

perfect, if at the same time you were able to check and control the results which you draw from those barometrical readings, by also studying the position of these great institutions, as mighty in their way as the Bank of England, holding great deposits, the condition of which is of such vast importance to every trader, to every manufacturer, to every commercial centre. I say some effort ought to be made in this direction. The banks ought to co-operate for such a purpose; and if I saw the prospect of such a reform, carried out loyally in the spirit I have indicated, I should be strengthened in the hope that measures might be taken to establish that second reserve of gold in the hands of the Bank of England at which I have hinted.

I return to the question of gold. Let it be thoroughly understood that our liabilities are payable in gold. That is the engagement which we have taken to foreign countries; that is an engagement which the Bank of England takes towards all who hold its notes. To say so is a truism, but it is one of those truisms which, like other truisms, are sometimes buried in the memory of men who do not like them. Now I wish you to consider the position of this country as the banking centre of the world. This position gives us great advantages which arise in great measure from the knowledge that any obligations held payable in England mean absolutely and safely so much gold. Do not let us forego that advantage. What does it mean? It means that we have to a great extent the command of capital from abroad. The safety of our institutions, the soundness of our currency, have produced the result—that foreigners largely hold their reserves in bills on London payable in gold. We are able to tap the Continent for cheap money. That

cheap money flows over the whole length and breadth of the land, and without your knowing it, here in Leeds, in Bradford, in Liverpool, everywhere, the value of capital is cheapened because the soundness of our currency system attracts gold from abroad, and induces the foreigner to hold bills payable in London, thus lending us money at a cheap rate. We have a great advantage in that respect.

But I do not deny that, on the other hand, it places us at some disadvantage. We are the great gold market of the world, and at the same time our available stock for use, for sale, for immediate purposes, is extraordinarily small as compared with the stock of gold held by other countries. We being the country on whom all can rush for the immediate purpose of getting gold, our stock—our available stock I mean—is nevertheless smaller to an extraordinary extent than that of any of the great continental countries. When gold is wanted, to what quarters do people go? We have not so large a stock as other countries. Why do they not go to France? Why do they not go to Germany? There is always a large amount of bills on Berlin which might be discounted there and turned into gold. Why can we not drain Berlin in the same way as the Germans are able, if they wish, to drain London? Because circumstances are interposed of a character which it is difficult for me accurately to describe, but which I will call *moral* difficulties. Supposing that any firm had in its hands bills on Germany for £2,000,000 which it wished to discount or cash, and for which it was anxious and determined to get gold. It would naturally apply to Berlin to discount those bills, or present them for payment and ask for the gold. The probability is that the bank to whom the order

was given, would decline the commission, fearing to be placed in an invidious position. In banking circles at Berlin a kind of moral pressure, a pressure from above, is put on, and every effort used to prevent the depletion of the stock of gold, pressure of a kind which no one in this country would approve, pressure, too, which would be absolutely unavailable here.

Why do not those who want gold go to Paris? If they go to Paris, well, on presenting their bills, if it is inconvenient to the Bank of France to pay in gold, they may be offered silver and not gold. Therefore, again, from France the gold which is wanted cannot be got. Thus in London only is there a certainty of obtaining gold on demand.

The position, then, is this: London is the market for gold, it is one of the conditions of its banking supremacy that it must be the market for gold; this supremacy is attended with immense advantages, with great profit to the community at large; on the other hand, as a natural result, it exposes us, in a high degree, to vicissitudes in the money-market, according as the stock of gold in the Bank of England and the Bank reserve of notes which depends upon it, rise or fall.

It appears very noteworthy that, though London is thus the special market for gold to all the world, the stock of the precious metal held by the Bank of England is, and for years has been, far below that held in other banking centres. The Bank of France holds in gold and silver £95,000,000, the Bank of Germany £40,000,000, the United States Treasury and the National Banks of the United States £142,000,000. The Bank of England holds, in ordinary times, about

£24,000,000. Here, then, is the position—the Bank of England, the very centre on which the pull comes with peculiar force, has an infinitely smaller stock of that metal than any of the other banking centres. This is a fact which, capable of explanation as it is, ought to sink deep into the minds of all business men. Mind, our system is built up on gold. For good or evil, the immense liabilities of this country would have to be discharged, if need there were, in gold; and this country is the one on which, if £3,000,000 or £4,000,000 are wanted, the immediate rush comes in the first instance. Our available stock ready for the moment is very small; hence arise sudden changes in the value of money. If we have so small a stock of bullion and a small reserve of notes, it follows that any large amount, or even a moderate amount, withdrawn from such a comparatively narrow base for the weight of so enormous a pyramid, will have an effect quite disproportionate to the extent to which gold is withdrawn or the reserve diminished.

I tell you, not only as viewing the matter from the point of view of currency, not only from the point of view of one who has had some acquaintance with banking matters, but as one who is responsible with others for the safety of the country, I consider that, looking to the very grave national emergencies which might come—but which, please God, will not come, but which every statesman is bound to consider as possible—the amount of central gold in the possession of this country, compared to the enormous amounts at the disposal of other countries, is a matter which requires attention, one to which we ought to look with some anxiety, not exaggerated anxiety, but with an anxiety to see whether we cannot contrive some

methods by which we can alleviate special moments of difficulty, and hold a large stock of bullion in reserve, not only for the banker, but for every possible national emergency.

I have spoken so far only of the central, visible, available stock of gold at the Bank of England. Though we have—and this is essential to the point which I shall put before you presently—comparatively a small amount of bullion at the centre, we have a very large amount of gold circulating amongst the people.

Opinions differ as to the amount. The estimates vary from £65,000,000 or £70,000,000 up to the point of £110,000,000; but, however that may be, we have little gold at the centre, and a very large amount in the pockets of the people, and I want to ask—it is a question which has been interesting me deeply—How far is the gold which is thus circulating in the pockets of the people available when a crisis comes? Would it not be better to have a portion of this gold replaced by other forms of currency, if at the same time we could secure more gold under central control than we have in the Bank of England at present?

You cannot 'tap' this immense mass of sovereigns when you most want gold, except so far as there might be a slight flow towards the centre in times of very dear money. Even if the rate of interest were 8 per cent. the bulk of the people would not carry less gold about them than they did before. Accordingly, I would much prefer for national and monetary purposes to have £20,000,000 of gold under our command at the Bank of England than 30,000,000 sovereigns in the hands of the public; and this object I would propose to effect by the issue of £1 notes to take the place of a portion of the sovereigns in circulation. I would issue £20,000,000 against gold, and £10,000,000

against Government stock. If the issue took place, and were taken up[1], we should have £20,000,000 more *central* gold—an immeasurably stronger reserve than 30,000,000 sovereigns on which we could not place our hands.

The gold thus collected would be security for the £1 notes; but it would also serve another purpose, which I will presently explain. My general idea is to utilize a possible issue of £1 notes, not as a simple increase of the fiduciary issue, but for the object of making it subservient to what I consider to be the primary point—of strengthening us both for banking and for national purposes. For that object, and for that object alone, would I embark in any scheme such as that of the £1 note.

Now I want to ask, Why has the suggestion of an issue of £1 notes lately come into some favour? I know that it is favoured here in Leeds and in other parts of the country. I gather that there are various reasons for such favour. By some it is thought that such an issue would increase the available amount of money. But this would not be the case. Paper, unless represented by gold, expels gold. Nor, if that were the object, would I attempt to promote it.

[1] It should be distinctly understood that neither the Government nor the Bank of England compel, or can compel, the public to use any form of currency which it dislikes. It is the public and its bankers who determine the relative use of sovereigns or £5 notes. The tradesman or employer or private individual applies to his banker for gold or notes according to his wants, and puts them into circulation; and the bankers in turn supply themselves according to *their* wants from the Bank of England. Thus if an Act of Parliament had been passed authorizing the issue of £1 notes, the success or failure of the scheme would have rested entirely with the public and its bankers, according as they determined to favour the use of the £1 note or not.

I do not believe in any artificial increase of the currency. I believe the soundness of business rests on men trading within their own means, within their own capacity for paying their acceptances, and that any man who leans on an increased issue of paper, who believes in the efficacy of the printing press simply for the avoiding of a crisis, is a hopeless heretic. I reject, therefore, the theory that the £1 note ought to be issued in order to increase the currency.

Or do people wish for the £1 note because it is more convenient than the sovereign? Of course we know that the Scotch and the Irish love the £1 note better than the sovereign. For my own part I plead guilty to an opposite feeling. I prefer a sovereign in my pocket to a £1 note, but I am not sure whether that is the common feeling. I should like to know whether to employers of labour, for instance, the power of conveying £1 notes conveniently and easily would not be a considerable advantage as compared with the difficulty of conveying the same quantity of gold. I can conceive that paper money in that respect would be more convenient for the payment of wages, and would have greater mobility. It could be transmitted far more easily from one town to another. But personally I require more persuasion upon this point of convenience. We have the indication that in most other countries paper money is preferred to bullion; but I am doubtful as to the feeling in England, and it might take some education before £1 notes became popular here.

There is a third reason why the £1 note is put forward, and that is from the point of view of economy to the Exchequer. If we were to have 20,000,000 sovereigns displaced by £20,000,000 of

paper issued against securities, the public Exchequer might make a profit if it claimed the interest on those securities or an equivalent profit from the issuing bank. We might make a few hundred thousands of pounds, but even this gain would only be possible if the £1 note should be a *cheap* instrument. But would it be a cheap instrument? Can we, with adequate precautions against forgery, with an adequate quality of paper, and with adequate securities in every direction, ensure a class of paper money which will realize the profit and the economy which has been prophesied? However that might be, speaking as a Chancellor of the Exchequer—though I should dearly like to get a substantial accession to my revenue —I say it would be dearly bought if it involved in the slightest degree the weakening of our system of currency.

I sum up, then, as follows: If £1 notes were issued entirely against securities, we should make money, we might produce some convenience, we might please a certain portion of the public; but we should be expelling a certain portion of gold—gold which is now circulating in the pockets of the people. Now that gold, I admit—and I have insisted on it—is not so important to us as gold at the centre. Indeed, I have said I would sooner have 20,000,000 sovereigns at the centre than 30,000,000 in active circulation. But any movement to which I would be a party in the direction of any further issue of notes must have this result—that the gold which would be brought by the public in exchange for the £1 notes should be so dealt with as to ensure its remaining in the country. My plan would be to use it, as already foreshadowed, for the purpose of a second reserve in the hands of the Bank of England,

not on the terms of the ordinary issue, but as a separate emergency stock on which some additional amount of paper money might be issued only when emergencies should arise.

What I have in my mind is this: When, under the existing system, a suspension of the Bank Charter Act takes place it authorizes a simple issue of notes unsupported by gold, a course which may add to the dangers of the situation by increasing paper money at a time when gold is leaving the country. It seems to me that it would be infinitely better to have command over a reserve of gold, a separate stock of gold, with which, in time of acute emergency, the Bank of England would be able to come to the rescue of the mercantile community generally. Against such a stock of gold under severe conditions to be defined, it might be authorized to make a further issue of notes—thus preventing the necessity for the cruder and more objectionable form of relief by the suspension of the Bank Charter Act. Further, if such a stock had existed, it would have been unnecessary to have applied to the Bank of France or to the Government of Russia, or to have negotiated with the authorities of any other country to increase our stock of gold at a given moment.

I return now for one second to the point which I laid down earlier in my speech. I drew attention to the small amount of bullion which we held, and showed that, in my judgment, it ought to be increased. I have now indicated a method by which I think it might be increased, and that without the imposition of any tax on any portion of the community. But such a solution would only be proper, such a solution could only be defended, if conditions were imposed which did not make the situation worse.

It would be improper to touch such a store of gold if the exchanges were against this country. It would be improper to touch such a reserve if the rate of interest were not at such a point as to be likely to attract gold from other countries. Do not let us look to anything which would simply palliate the difficulties for a moment, but which would afterwards aggravate the catastrophes which we are endeavouring to avoid.

I have sought in these matters to see how, under the most orthodox system, and leaving the Bank Charter Act practically intact, we might secure a second reserve. I have been in communication with the authorities of the Bank of England on the subject. I am not authorized to say we are agreed upon any plan. We are working at a plan. We are endeavouring to see whether some plan cannot be devised by which these violent fluctuations, these internal panics, can be mitigated. It is difficult to deal with an external panic; but an internal panic might sometimes be saved by a further issue of notes, not as at present against securities only, but against a reserve of gold which has been accumulated by such measures as I have endeavoured to describe. These measures I am thinking out, and, if the public should approve of any action being taken, and the time of Parliament should permit, it would, I assure you, be a satisfaction to me to devise some cautious measure which would redound to the advantage not only of the banking, but of the whole mercantile community. I feel, I painfully feel, that it is impossible within the limits imposed upon me on this occasion to do justice to a large currency plan, or even to such modified suggestions as I have made.

They cannot be understood simply from the utterances to which I have given expression to-night. But I have endeavoured to indicate this at least—that I am determined to labour for the strengthening of our reserves in every quarter as a great national object. And, in conclusion—let me ask you once more to remember that these are not questions which concern only the banking community, or only belong to high abstract theory, but that they are immediate matters of practical and vital interest. If we can secure that there shall not be such violent fluctuations as have too often beset us, if we can avoid an occasional panic, or mitigate such panics as cannot be avoided, we shall have done something which may not, I hope, be regarded by our fellow countrymen as unworthy of their support and commendation.

SUPPLEMENTAL NOTE.

The plan adumbrated in the foregoing address remained under public discussion during the year 1891. The view that the central stock of gold was too small, and ought to be increased, received very general approval; but various counter-proposals for accomplishing this object were put forward, and many competent critics were busy with various parts of the scheme. Towards the close of the year, I placed modified conclusions, which the further study of the subject had suggested to me, before a meeting of the London Chamber of Commerce, which was largely attended by members of the banking community[1]. On two of the topics on which I had

[1] I do not reproduce in this volume the address which I delivered, partly because, as regards argument, it was to a great

insisted at Leeds, I was able to make what seemed to me a satisfactory statement. Public interest, I was able to say, had been aroused to the necessity and expediency of larger cash reserves. And as to a more frequent publication of accounts, my words had not been without effect. Indeed, after my speech, a meeting of bankers had taken place, at which it was resolved to issue *monthly* statements showing the proportion of cash to liabilities. This seemed a great step in the right direction. But it is now considered as not having been a reform without a serious drawback. I am informed that it has led to the so-called practice of 'window-dressing'—that is to say, in order to make a goodly show, some banks call in part of their outstanding loans as the day of publication approaches, so as to exhibit a larger amount of cash in proportion to their liabilities than they habitually hold. As the result the money-market is unnecessarily disturbed, and some doubt thrown on the value of the information given. But, however that may be, since 1891 a most distinct improvement has taken place in the policy of the great majority of banks as regards their cash reserves. The somewhat startling figures in my Leeds address as to the then proportion of cash to deposits and other liabilities shown by the accounts of some of the largest banks, have scarcely a counterpart in the published statements of the situation even of the same banks to-day. In this

degree a repetition and amplification of my speech at Leeds; partly because it entered very fully on some technical details which, especially as the scheme was not carried out, would not interest the general reader. To any currency students who might care to read the address, and some correspondence by which it was followed, I may point out that it was published by Mr. Effingham Wilson in 1891, under the title *The Metallic Reserve.*

respect the improvement in the banking situation has been very marked.

As to the larger subject which I had raised, the issue of £1 notes and the formation of a special second reserve of gold in the hands of the Bank of England, I had simplified my scheme in some respects during the course of the year 1891. I gave up the idea of a second gold reserve, as I found that the same object might be accomplished by simply allowing the gold which was to be held against the £1 notes to be added to the general stock of bullion held by the Bank of England, and enacting conditions under which, in time of emergency, an additional issue of notes might be made. A second change was then proposed—that the £1 notes should be issued in the proportion of four against gold, and one against securities, instead of two against gold, and one against securities as suggested at Leeds. I was moved to propose this alternative by discovering to my great satisfaction that—while I anticipated objection to my scheme from a large school, including high financial authorities, on the ground of its being wasteful, as a much larger fiduciary issue might safely and profitably be made—a weighty mass of orthodox opinion had been developed which objected to my displacing any gold at all.

I summed up the scheme itself thus modified in the following words: 'My plan is really simplicity itself. After the point of £22,000,000 of bullion has been reached in the Bank of England, I would authorize an issue of additional notes in the proportion of four against gold to one against securities, and after, by that means, an additional amount of gold had been accumulated in the Bank of England, I would allow them in time of internal crises, *at a given and rising*

rates of interest, to issue notes irrespective of the bullion obligation.'

The whole plan, as has been abundantly apparent, was based on the adoption of £1 notes as part of our currency. I was compelled to admit that I was not an enthusiast for such notes, and had never been so; but for the sake of the all-important object of a larger stock of gold I was prepared to introduce them, and to give the banks and the public the *option* of using them, for the Government could not, of course, force them into circulation. But the banking world hung back. Though I was able to say that there was a vast consensus of opinion that we ought to hold a large accessible stock of gold, there was too little disposition to pay the price in the shape of an issue of £1 notes, to encourage me in proceeding with a scheme which, from the first, I had announced I should only attempt to carry out if I had the cordial support of the bankers at my back. Thus without any very great regret I felt I must abandon the plan, having at all events reaped the satisfaction that in the course of the various issues which had been raised, I had not called attention to the necessity of larger banking reserves in vain. Happily, since 1891 there has been no occasion for that suspension of the Bank Charter Act, for which my plan was intended to be a safe substitute, and the central stock of gold at the Bank of England has largely increased.

THE DEPRECIATION OF SILVER

Introductory Note

The following article, treating of the heavy fall which had taken place in the price of silver as measured by gold between the years 1873 and 1876, was written in October of the latter year, at which time the fall had reached 20 per cent. The price of silver per ounce had shrunk from 5*s.* to 4*s.*, the price of the rupee from 2*s.* to about 1*s.* 7*d.* The article describes the universal confusion and the widespread dismay which so portentous a change in a form of currency which affected millions all over the globe, had necessarily produced. A fall of 20 per cent.—it seemed a veritable catastrophe! What were the prospects for the future? Had bottom been touched? Was there a prospect of recovery? Would light be thrown on an ultimate solution of the many problems involved, by an examination of the causes which had brought about the crisis?

Not unnaturally the British Government recognized the necessity for an exhaustive inquiry. A Committee of the House of Commons was appointed, in the course of 1876, to investigate the depreciation of silver in all its bearings. I was nominated Chairman of the Committee, and had thus the opportunity of a thorough study of almost every branch of this most complicated subject. Later on, after the conclusion of the labours of the Committee, I took the opportunity of writing on the silver question in a freer and fuller, perhaps in a more forcible manner than was possible or admissible in an official report.

Looking back upon the situation which it fell to my lot to describe, upon the impressions made upon my mind by what then appeared to me a revolution in the value and uses of silver—a revolution based on the fall of 20 per cent.—I must admit that though I asked myself whether any limits could be discerned to a further decline, I did not realize that the price of an ounce of silver, which for so many decades had seemed to be firmly established at about 5*s.*, would ever sink to so low as 2*s.* 2*d.*, and that the value of the rupee might drop so low as for a time to hover round 1*s.* 2*d.* I cite these startling figures here to prepare the reader who peruses the story of the silver question in 1876 for a different standard, a different estimate of the effects of the depreciation at that date from what he might expect to find with his present knowledge that the decline in 1876 was scarcely a half-way house on the road to the subsequent fall.

It would be beyond the scope of this volume to trace the fortunes of silver, its progressive deposition from its old functions and position since 1876, the changes in the scale of its production, in its uses as currency in different countries, in its value in Europe and in the East. Legislation became very busy with the expulsion of silver as legal tender; and the unwearied efforts of a most active propaganda failed to restore it to any place of trust in currency. A review of the position of silver from stage to stage would be quite beyond my competence. Some very brief references to its subsequent history and to the measures taken by the Government of India to adjust its currency to the changed state of things, I relegate to a supplemental note, as an epilogue to some of the reflections and forecasts presented in the article itself.

THE DEPRECIATION OF SILVER

Reprinted from the 'Edinburgh Review' of October, 1876

Silver has fallen 20 per cent. Silver, one of the reigning metals, elected to be a standard of value on account of its stability from the oldest times, has undergone the fate of plebeian ores. It has fallen and risen and fallen again, with violent and sudden fluctuations, as if it were no better than common iron or lead. Anglo-Indians are aghast. The financial world is in tribulation. Political economists are at their wits' end. Economical heretics are at the height of enjoyment. The event is heralded with the usual accompaniments of extraordinary phenomena in the present day—a deluge of pamphlets, an impatient cry for Government action, a convenient reference to a Select Committee, a Report without the indication of a policy, and, finally, the determination of the Government to 'wait and see.' In the meantime, the imperious orthodoxy of the Secretary of State for India finds congenial employment in the suppression of currency heresies, while the youthful smartness of the political Under-Secretary is awed into sobriety by the prolonged contemplation of an insoluble financial problem. Sir Louis Mallet is carried by the actual duties of the permanent Under-Secretaryship into those regions of speculative political economy for which he is equally qualified by his talents and his tastes, while the members of the India Council revel in a legitimate opportunity for an official discussion, in a practical

shape, of all the financial crotchets which have exercised the ingenuity of Indian administrators for the last twenty years. In France, bi-metallists and mono-metallists are profiting by the occasion to pummel each other with truly theological fury. M. Cernuschi dashes off pamphlet after pamphlet, carrying a brilliant and imaginative fanaticism into the driest regions of currency controversy; while M. Chevalier, a weighty antagonist, joins a crusade for the dethronement of silver, with a not less determined onslaught than that he made at another time for the humiliation of gold.

But what does it all mean? Is the subject beyond the plain intelligence of people unversed in currency jargon? Must we perforce sound the depths of the argument between bi-metallists and mono-metallists before we can understand it? Alas! the meaning of the 'depreciation of silver' is but too clear. It is written in ruinous mercantile transactions, in the deficit of the Indian Budget, in the diminished resources of many households. Whilst pamphleteers and economists are hammering out their difficult theories, and half the Governments of Europe are producing blue-books crammed with scientific and statistical information, a popular version of 'the fall of silver' can be procured from many a man whose views of currency and foreign exchanges are limited to an opinion as to the number of pence to which he thinks himself entitled in exchange for a rupee, or to the average amount of sterling money which experience has taught him to believe an ounce of silver ought to fetch. Ask the Indian civil servant what in his eyes the fall in silver means? He will tell you that when he sends home a portion of his pay, one-fifth is lost before his family can spend it. The same rupees are

set aside for friends at home, but the £100 they used to yield, alas! have dwindled to £80. True, the rate of exchange has always been to Anglo-Indians an object of significant interest. The rise and fall of a penny per rupee has always meant an appreciable difference of money to spend, but a fall of fourpence to fivepence on every rupee had never entered the most despondent imagination. Such a loss means no less, to families dependent on Indian remittances, than a revision of the entire scale of their domestic budgets.

Ask the Manchester exporter of manufactured goods for his version of the situation. His account will be clear enough. He has exported goods to India. The goods have been sold for a certain number of silver rupees. These rupees have to be brought home; but the value of claims on India payable in rupees fluctuates with the value of the silver those rupees contain. The same claims on Indian purchasers, which at the old average exchange, based on the then value of silver, could have been turned into £10,000 of English money, will only yield £8,000 when silver has fallen 20 per cent. A loss of £2,000 stares the manufacturer in the face as an illustration of the depreciation of silver. So, again, London banking establishments, with branches in India, have found a regular and lucrative business in collecting deposits at home, at low European interest, and transmitting them, transformed into rupees, to India, to be lent out at the higher Indian rates. Debts in gold were thus incurred to English and Scotch depositors, and claims payable in silver established on India. When the English money deposited was transformed into silver for Indian use, the average price of silver was 5*s.* per ounce. But, suppose the exigencies of the banks or their depositors compel the recall of such outstanding funds, and their

retransfer into English gold, at a time when the worth of an ounce of silver has fallen from 5*s.* to 4*s.* One-fifth of the capital is lost at a blow! Not through default of debtors; not through imprudent speculations; not through any lack of business foresight; but because silver, the legal tender of India, has played false. No wonder if, in these days, when every public inconvenience is laid at the door of Government or law, and every accident is expected to be followed forthwith by an Act of Parliament, we hear an impatient cry for measures of redress! How is English capital outstanding in India to be brought home without enormous loss? Is it not the currency which is at fault? And are not the freaks of the precious metals pre-eminently a Government affair?

Take the case of Government stocks or railway debentures, of which the dividends are payable in silver, but which are held in countries where a gold currency prevails. Many Austrian securities are in this position. The unfortunate holders bought their stocks when silver was assumed to have a steady value, and to offer a scarcely less regular income than dividends payable in gold. But silver falls with startling rapidity, its price oscillates to and fro, and the holders of silver dividends find themselves, not in receipt of a fixed income, but speculating against their will in a metal of which the price may fluctuate 20 per cent. The same loss, the same miscalculation, occurs where Governments are so placed that under previous and irrevocable engagements they have to receive in silver and to pay in gold. The German Government, carrying out its stupendous operation of substituting a gold for a silver currency, is under contract to its subjects to withdraw the old silver coins, and to give new gold coins for them at a fixed rate of exchange.

The relative values of gold and silver were taken when this rate was fixed, on the basis of the proportion which had been the law in France from the beginning of the century, namely, at $15\frac{1}{2}$ to 1. For all silver coin presented for exchange the German Government must give gold at this rate. The fall in silver has changed the relative value; but the operation must be continued all the same. A pound of gold must still be given for fifteen pounds and a half of silver; but the fifteen pounds and a half of silver, when sold by the German Government, will no longer buy a pound of gold. The Indian Government receives the whole of its revenue in silver rupees, but of its payments no less a sum than £15,000,000 sterling has to be made in gold. The disbursements in England and the interest on loans raised at home must be discharged in English coin. The conversion of the silver received into the gold to be paid out, stripped of all the technicalities of exchange, leaves a loss, on the basis of a fall of 20 per cent., of no less than £3,000,000 sterling per annum.

The foregoing illustrations of the consequences flowing from the depreciation of silver all disclose a clear and tangible loss. Indeed, the result is so self-evident that we should have hesitated to fill a page with such elementary instances, if we had not wished to be enabled, by setting them out in some detail, to point to one condition which is common to all these cases of loss incurred. It will be observed that they all distinctly involve a transfer from silver to gold. The loss is incurred in the process of an actual simple exchange from one metal to another. Silver and gold are in all these cases brought face to face. Silver, it is clear, has fallen when measured by gold, or to speak still more plainly, when sold for

gold. But is this enough to establish and explain an absolute fall in the value of silver? Is it not possible that gold has become dearer? Is silver not a standard of value in one part of the world, as gold is in another? Is it sufficient, then, to illustrate the fall of silver simply by measuring its value against gold? Should we be satisfied to prove a rise in the value of gold by showing that it would exchange, as indeed it does now exchange, for more silver than before? Surely a fall in silver, as a rise or fall in gold, must be measured by its relation not only to another metal, but to the prices of commodities in those countries where it reigns supreme. How much of its purchasing power has silver lost within its own domains?

Unfortunately, we must travel very far before we find regions where silver is still the sole standard of value and rules with undivided sway. In Europe, it scarcely retains a single important kingdom. In Germany, Denmark, Sweden, and Norway, it has lately been formally dethroned, and gold installed in its place. In Holland, its rule has been suspended, and temporarily handed over to gold. In Russia and Austria, it has a mere titular sovereignty, under the anarchical *régime* of unlimited paper issues. Within the boundaries of the 'Latin Monetary Union,' that is to say, in France, Belgium, Italy, and Switzerland, the area of the double standard, it scarcely enjoys a precarious moiety of authority, having been stripped of the chief privilege of monetary supremacy—the right to be coined without limitation. No wonder that, under such circumstances, silver scarcely still receives the homage due to a reigning metal, and is treated as a subject, not as a rival, of gold. But discarded in Europe, silver is still at this moment sole mistress of the East. In India, and indeed over

a vast portion of Asia, silver, and silver alone, is the standard of value. There we may accordingly attempt to test changes in the value of silver by examining its purchasing powers in relation not simply to gold, but to the prices of all commodities; and there a fall in the price of silver means the same as the depreciation of gold elsewhere—a general rise in prices. Can such a rise be traced?

Very little evidence is to be found in the Report of the Select Committee[1] on the Depreciation of Silver on this important branch of the subject. The fall in the value of silver was assumed. The Committee was instructed to investigate its causes. Were not the tables of the fluctuations in the price of silver per ounce in the London market and of the extraordinary fall in the Indian Exchanges plain and eloquent enough? But no review of the whole situation, no examination of the policy which ought to be pursued, can be at all complete unless evidence is adduced and carefully sifted, as to the degree in which general prices have been affected in countries like India, where silver is still the legal tender. And, let it be remembered that in the collection and review of such evidence, the principal points to be considered are not the prices of the commodities in which Europeans are most interested, articles of international commerce which are certain to be first affected by movements in foreign exchanges. Laying aside as much as we can our European spectacles, we ought to bear in mind that what we want mainly to know is the position of the great articles of general consumption, in fact of the food of the people—grain and rice. Will a rupee still buy as much grain as before? Will

[1] This Committee reported in 1876.

a man's wages go as far to support him as before? Does the ryot who produces grain or rice find himself, measured by his receipts in rupees, a richer man than before? When a plethora of gold spread over Europe it was soon followed by tangible results. Are similar results being produced in India by a plethora of silver? Or, to ask an antecedent question, is there in India a plethora of silver at all? Before that action is taken with reference to India, which is so loudly demanded from an English point of view, let us at least know the facts. The Government appears to us to be bound to make most careful inquiry in India as to the effect produced on general prices by the fall in the value of silver at home, and to present exhaustive evidence to the public on the subject. Till that is done false impressions will be current, and false inferences drawn, on a most incomplete basis of facts.

We have reason to believe that, at all events till very lately, no general rise in prices had occurred in India. Indeed, it is exceedingly remarkable, though at the same time perfectly intelligible, that whereas a distinct and most decided rise occurred some years ago while silver still stood at five shillings an ounce, the average prices for grain and rice are, at this moment, very much lower than they were then. The reason is obvious. The range of internal prices in India is not determined by the fluctuations in the London price of silver bullion, but by the amount of silver which actually reaches India and becomes part of the circulation. During the years of the cotton famine, enormous amounts of silver flowed into Bombay, and the consequence of this influx was in entire accord with the laws of political economy. Prices rose to a marvellous degree. Grain and rice in many

quarters seemed indeed at almost famine prices. But, by degrees, the extraordinary addition to the circulation was absorbed, the accumulation was distributed over a vast area, and the redundancy apparently relieved. Prices fell, and, at this moment, with silver so cheap as to carry dismay into every quarter, they have scarcely felt the shock. The fact is, silver is cheap in London, but the effect of the cheapness has not yet resulted in surplus exports to the East; and till a fresh flood of silver is poured into India, the effect of the fall in the price is, and will be, little felt over the vast area of its internal transactions.

The extent of that area is a point of which we should never lose sight. In Europe, the late changes in monetary laws have so limited the uses, and consequently the demand for silver, that any excess in the supply produces at once a marked effect. But in India, with a silver circulation, which has been fed by an importation of £200,000,000 sterling in the course of forty years, the addition of a few millions, when they have once been distributed, can exercise but an imperceptible influence, and during the last few years the additions have been even much below the nominal annual rate. The plethora of silver in Europe is therefore, as yet, not reproduced in India. All who require to buy gold for the purpose of paying debts abroad, all who desire to send money home, all in fact who have to make payments in gold, are mulcted in a most serious loss; they feel to the full the depreciation of silver as compared with gold. The Indian Government, as we have seen, is at its wits' end, as it receives its taxes in silver in India, and has to pay interest in gold at home. But to the mass of the Indian population, notwithstanding the existence of a silver currency, the great event does not yet

signify that the means of existence have become dearer, that prices are visibly rising before their eyes, or that the rupee which circulates amongst them is a coin which has lost value in the eyes of the world.

The practical bearing of these facts is not far to seek. The position of general prices in India must be one of the very first elements to be considered in any remedial measures proposed for meeting the present crisis; and we insist the more on this point, as the voices likely to make themselves heard are rather those of Englishmen who find themselves in the awkward position of having to exchange silver into gold at a loss, or of Indian officials who have the tremendous task before them of meeting a gaping deficit, than of the Indian population at large. We have pointed out that no evidence has yet been afforded that prices have risen. The laws of political economy teach us to expect such a result, and we know the process by which it will probably be brought about. It will be brought about by the actual conveyance of the surplus supplies of America and Germany to Indian ports, not by the quotation of prices current in another quarter of the globe, nor simply by the alterations in the rates of exchange. A deluge of silver must be actually felt —a deluge caused by the overflow from the European reservoirs. We know also that when that overflow takes place, the European markets, relieved from pressure, may exhibit a reaction; and that the very operations which will raise present prices in India, and perhaps bring about some depreciation of silver throughout the continent of Asia, may tend, on the other hand, to raise to a certain extent the value of silver elsewhere. We know the nature of the causes which will assuredly come into play, but not the time within which they will be developed or the degree to

which they will be felt. But till we know more we are surely forbidden both by equity and prudence to interfere with private or public contracts, or to base action on a rise in prices, of which we can foresee neither the date nor the extent.

The operation of the law which must force silver to the East is very apparent, but still it may be worth while to present it in a practical form. The cheapness of silver stimulates the purchase of Indian produce which that silver will buy, and discourages imports into India, for which silver would be received in payment. India, accordingly, sells more and buys less, and establishes a larger balance due to herself, which has to be settled in that metal which in India is legal tender. Or, to take an extreme instance, which, however, illustrates the working of the law in its simplest form. Let us suppose the case of an importer of silver from American mines who finds that his silver bullion is unsaleable in Europe. What can he do? One resource is always open to him so long as no legislative change takes place. He can carry his bullion to Bombay; there he can claim to have it coined into rupees; with his rupees he can buy what Indian produce he likes, and that produce he can ship to Europe and turn into gold. It will be observed that one condition is throughout presupposed—the unrestricted right of claiming the conversion of silver bullion into rupees. So long as this right exists, so long as the mints of India remain open to all who bring silver to be coined, a bar of silver in London is the equivalent of the rupees into which it can be coined, less the cost of its transport and its transformation. The operations of banks, the nomenclature of the Exchange, the numerous technicalities which

surround the subject, must not be permitted to obscure the issue. So long as a precious metal is legal tender in any part of the world, that metal has the exact purchasing power of the coin of the country in which it remains a legal tender, subject only to the expenses to be incurred. When silver or gold are, in ordinary language, the legal tender in any country, it is not only meant that the actual coins manufactured out of that metal are to be universally received in payment, but also that the possessors of bullion may present it at the Government mints and claim to have it turned into coin. The rule of gold in the United Kingdom does not simply mean that a sovereign is legal tender, but that bars of gold can be presented at the Bank without limit, and sovereigns be obtained in exchange. This practical identity between bullion and coin is one of the main attributes belonging to what we have called a reigning metal. Silver has been shorn of this attribute in France and elsewhere by recent decrees; but in India silver still retains its privileges unimpaired. No regulations close the doors of the mints upon any amounts which may be poured in, and no check is interposed to interfere with the certain action of regular laws. The ordinary channels may be blocked with difficulties; the tide may have to force its way through unaccustomed outlets; it may not flow freely for a time. Not everybody desires to speculate in cotton or jute, disaster may have disheartened Indian trade, and speculators themselves may for a time recoil from buying 'potential rupees.' But so long as rupees are valuable, and there is produce purchaseable in India and saleable in Europe which those rupees will buy, surplus supplies of silver must in the long run find their way to the East.

The rectifying process, which this ultimate flow of

silver to the East involves, deserves particular attention. It constitutes a further source of uncertainty which enjoins caution in the adoption of remedial measures. The absorption of silver by the currencies of the East, which we have indicated as an almost certain eventuality, unless artificial hindrances are interposed, and which will raise general prices where those currencies are in force, will, by carrying off the silver from Europe, tend to arrest the fall, and mitigate the effects of the surplus supplies. It does not follow as a necessary consequence, because silver has touched a point 20 per cent. below its former average value when measured by gold, that when the effects of the causes which produced that sudden fall are distributed over the vast regions of the East, a rise of 20 per cent. may be expected in the prices of general commodities when measured by a silver standard. It is possible that silver may have fallen below its ultimate value in Europe, and that in the interior of India it is still above that point. In such a case the level may, in the end, be found between the two.

It results that on two cardinal points we have still to await the current of events. When and to what degree will general prices in India rise? And to what degree will the very causes which will lead to that rise react upon the value of the silver in the world at large? Let it be well considered how the uncertainty on these two points bears on such propositions as the permanent dethronement of silver. We are not concerned at this moment to discuss elaborately the policy to be pursued: we merely take advantage of the various points raised by an examination of the facts attending the fall of silver, to suggest considerations which cannot be overlooked. Any readjustment of the Indian currency would have to be based on some

assumed relation of value between gold and silver. But no one is at present able to gauge, in the most approximate manner, the final results. We know, we are plainly told by all that occurs, that we so far only see the first half of the chain of events. It is true that many months have elapsed since the crisis began; and it may be said that we are patient indeed, if we are content to wait still longer before we admit a complete set of facts. In reply, it is sufficient to urge, as we have already argued at length, that the connexion is as yet most incomplete between Western causes and Eastern results. The influence of the fall has not yet spanned the world. The decline in the Indian exchanges must not mislead us into the belief that we know all that can be known; and till we feel surer ground under our feet, however much we may speculate and theorize, it would be unbusinesslike and unstatesmanlike to take an irrevocable decision.

Two results of the late movements in the silver market are often confused which should be most carefully distinguished: the *fluctuation* in the value, and the *fall* in the value; the sense of uncertainty produced, and the actual depreciation. M. Léon Say, the French Minister of Finance, drew special attention to this distinction in defending the maintenance, for the present, of the double standard in France. Silver would not be disqualified, he argued, from doing duty as heretofore in conjunction with gold simply by the fact of its depreciation. Re-adjustment would be necessary, but in other respects the battle between the mono-metallists and the bi-metallists would have to be fought out on the old lines. On the other hand, if when the German supplies are disposed of, and the production of Nevada is fully gauged, silver, instead

of settling down at some new level, should continue to exhibit the constant fluctuations in value of common ores, not simply within such a range of limits as the past fluctuations covered during the first seventy years of this century, but with such violent ups and downs as have marked the last two years, then a change of policy might be rendered indispensable. The question of the deposition of silver might in such a contingency clearly have to be faced. But the fluctuations and agitation which we have lately witnessed cannot be accepted as conclusive evidence that the silver market has permanently lost its character. The immense operations of Germany keep up a state of prolonged suspense, but they cannot last for ever. It would be contrary to the experience of ages if a fairly steady level should not ultimately be found.

The evils and inconveniences of the moment are partly due to the state of uncertainty, partly to the actual fall. When a new level has been reached, trade will, of course, adapt itself to the new situation. What has caused grievous loss to Governments and individuals, has been the commencement of transactions in one state of things, and their continuance or conclusion under another. The illustrations of losses incurred, noted by us at the beginning of this article, all fall under this condition. The settlement of the salary of the Indian civil servant, the sales of British goods in India, the remittance of English and Scotch deposits to the East for profitable employment at high Indian rates, the purchase of stock with silver dividends, the passage from a silver to a gold coinage, the levy of taxes in silver abroad for the payment of charges in gold at home, are all instances of transactions commenced on the assumption of a certain general relation between the values of silver and gold which has been

falsified by events; or, if no such actual assumption was made, the loss at least has been due to silver having been at one price when the bargain was struck, and at another while its effects were still in operation. So long as extreme uncertainty prevails, or so long as such violent changes in price are apprehended as have inflicted great losses during the past year, it would be extraordinary if bankers, merchants, and manufacturers were not to show extreme reluctance to embark in any transaction in which the price of silver formed an element of calculation. It is, therefore, not merely the fall, it is the impossibility of reckoning on any certain price, which paralyses the movements of trade, and even prevents those rectifying causes from beginning their work, to which we may look with some confidence in the end.

It would be most unwise to underestimate the great damage and suffering incurred in all branches of the Indian trade through the present condition of the silver market. On the other hand, it is well to observe that, apart from this most serious temporary derangement of trade, caused both by the suddenness and the magnitude of the late fluctuations, and apart from the specific losses suffered by those who have to change silver into gold, the public at large does not lose by the fall in silver so far as it is caused by the discovery of larger supplies. The addition thus made to the store of the world is an addition to its wealth, not a source of poverty. Nor is it necessarily or even probably a source of injury to English interests. If additional millions worth of silver are produced, those who produce them become purchasers of goods. The trade of the world is increased, and English banking and commercial supremacy always succeeds in causing a large share of such an increase to be entered in

English ledgers. Manchester manufacturers may exclaim, 'Why, part of your argument is, that a diminution of exports to India is to be a certain result. It is even pointed out to us as a "rectifying cause." How, then, shall we not be sufferers?' But the diminished exports in one direction will probably be compensated by increased business in another. We again quote the evidence of Mr. Bagehot:—

'Of course it will be evident that if this country has to export silver to the East, it must buy that silver somewhere. That silver it will have to buy in America, and therefore a consequence of the new state of things will be that the English exporters of goods to some parts of the world will be benefited. I do not say the English exporters of goods to America, for probably we shall not pay America directly. The nature of the trade between America and this country is—that America sends us directly a great deal more than we send her; and America buys, in various parts of the world, coffee, and rice, and tea, and a variety of articles, and that the sellers of those articles draw upon England, and so the balance is struck; we shall have to pay America in some way for the silver, and we shall pay her by exporting to the countries from whom she buys some of those articles, and, therefore, though it is perfectly true to say that the effect of the depreciation of silver may be unfavourable to the English exporter of goods to the East, yet it will be favourable to another class of English exporters, that is to say, those who pay America. . . . We are the great settling-house of the world.'

So far, therefore, as general trade is concerned, this country need be under no apprehension that the new source of wealth discovered in America means, to us, a fearful calamity. It has created problems difficult of

solution, much financial inconvenience, much individual loss. It taxes to the utmost the ability of our Indian administrators; it opens, alas! a wide field for mistakes; but when all is said, it would be an offence against economic laws, and an ungrateful return for the precious gifts of the earth, if the shining stream of silver, which is pouring forth in such rich volume from the mountain-sides on the Pacific coast, should be denounced by the world at large as a disastrous flood!

In the preceding pages we have discussed the popular and practical meaning of the depreciation of silver, we have examined the methods in which it affects individuals and governments, and have called attention to some of the incidents by which it is accompanied. We proceed to deal with the causes which have led to the present situation; and, as the final result of the crisis, and the expediency of meeting it by any actual administrative or legislative measures, must depend entirely on the character of those causes, we shall make no apology for passing them under review, though little difference of opinion exists as to what these causes have been. They are described as follows in the Report of the Select Committee:—

'1. The discovery of new silver mines of great richness in the State of Nevada.

'2. The introduction of a gold currency into Germany in place of the previous silver currency. This operation commenced at the end of 1871.

'3. The decreased demand for silver for export to India.'

'To these causes it must be added:—

'4. That the Scandinavian Governments have also substituted gold for silver in their currency.

'5. That the Latin Union, comprising France,

Belgium, Switzerland, Italy, and Greece, have since 1874 limited the amount of silver to be coined yearly in the mints of each member of the Union, suspending the privileges formerly accorded to all holders of silver bullion of claiming to have that bullion turned into coin without restriction.

'6. That Holland has also passed a temporary Act prohibiting, except on account of the Government, the coining of silver, and authorizing the coining of gold.'

A further cause has been assigned. It has been said that the Committee failed to comment, as they should have done, on the suspension of specie payments in many States. If inconvertible paper money had not been declared legal tender in Russia, Austria, and Italy, those countries would have absorbed a vast amount of silver. Italy and Austria figure on the list of sellers of silver instead of appearing among the purchasers, and the great empire of Russia is set down in the Report of the Committee as having bought only four millions sterling during the last four years. No symptoms of attempts to work up to a resumption of specie payments are visible either in Russia, Austria, or Italy. Indeed the two latter countries have contributed to that over-stocking of the silver market, under which the price has broken down. But these countries, like the United States, had suspended specie payments long before the price of silver fell. By far the greater value of the silver coin which retreated before the advancing wave of paper issues was absorbed long before the possibility of a fall of many pence per ounce had been even so much as thought of. This transition from silver to paper can, therefore, scarcely be cited among the immediate causes of the late fall, though it is abundantly clear that the monetary situa-

tion of these countries has a most important bearing on the question. The present situation would be very different if an actual silver currency were in force in other countries of Europe besides the members of the Latin Union. The diminution of the area in Europe over which silver exercises sway, through the substitution of paper money, is clearly an element well entitled to much consideration.

We return to the causes of the depreciation of silver enumerated by the Select Committee.

The effect of the discovery of the new mines in Nevada is narrated with much detail in the Report. The richness of the mines appears so extraordinary, that we are not surprised that the Committee cautiously confined themselves to quotations from official documents. Yet the wondrous yield of the new 'Bonanzas' could not fail to inspire even official writers with poetical fire, and their reports contain passages which would be rhapsodies if they were not sustained by figures and facts. The following is an eloquent burst from the Report of Mr. Whitehill, 'the State Mineralogist' of Nevada, in which he lights up his mining statistics with poetry and politics:—

'The past two years have been a period of unexampled prosperity in the history of the State, and at no time have the prospects for future success been so encouraging. Dependent, for the most part, upon the products of the mines, the fortunes of Nevada are at all times liable to the fluctuations incident to mining; bodies of ore are exhausted, and some time must necessarily elapse before other bodies are discovered; but at present, such a wealth of the precious metals has been disclosed in the mines upon the Comstock Lode, that many years will have passed before it can be exhausted. Competent persons have

estimated the value of the ore now in sight in the Consolidated Virginia and California mines at more than 100,000,000 dollars, and yet these two mines occupy only about 1,800 of the 22,000 feet located and worked on the same lode. It has also been estimated that the product of all the mines in the State for 1875 will reach 50,000,000 dollars, and this is but the commencement of a new era in the mining interests of this State. From the present indications our mining resources are practically without limit, and, with one of the most industrious and bravest populations to be found in any country, no uneasiness need be felt in the decay of mining enterprises in Nevada. No safer investment for capital can be made where such speedy and remunerative results are obtained. The fruits of our mines have made thousands of men wealthy, and have built a hundred palaces more gorgeous than those of ancient story, and still our army of courageous prospectors are searching on every mountain slope and in every deep ravine for the stores of wealth which nature has so lavishly bestowed upon this section of our fair land. Many old districts are being reorganized, and abandoned claims re-located, while those at work, with rare exceptions, are greatly cheered with anticipations of a brighter future.'

We are not minded to astonish our readers with the more fabulous accounts of the mines belonging to the 'Consolidated Virginia' and 'the California' Companies, which 'are beginning to open up and lay bare some of the secrets of the northern end of the Great Comstock Lode.' Reporters to American papers write under the heading of the 'Heart of the Comstock' of a 'perfect mountain of silver ore, and of the uselessness of attempting a fair description of the rich character of the ore, the sides and face of the

drift being one glittering mass of sulphurets mixed with the richest character of chlorides,' of 'every shaft run, in fact almost every stroke of the pick made, adding to the already immense wealth of the mines.' The reality, however, is sensational enough. The annual production of silver in the world has been doubled since the United States commenced their gigantic contribution. In the years previous to any supplies from the United States, the total annual production was £8,000,000 sterling. The total production for 1876 is estimated at £16,000,000. Of this sum £9,000,000 is set down to the account of the United States. The progress is indeed astonishing. Till about the year 1860 the production of silver had for a series of years been apparently very steady. In that year the United States are credited with the modest sum of £30,000. Two years afterwards it nearly reached £1,000,000. In ten more years it nearly reached £6,000,000, and now £9,000,000 is considered a moderate estimate! The total production of silver elsewhere than in the United States is not supposed to have increased. Indeed the statistics given show a slight diminution. To arrive at the present time at the total production of silver, the yield of all other countries should be taken at about £7,000,000, and the yield of the United States £9,000,000, of which almost the whole is a distinct annual addition to the total supply. Can any surprise be felt at the perturbation this change has called forth?

The figures we have quoted are exclusive of the large proportion of gold which is found in the ores of the silver mines of the United States. In the Comstock Lode the value of the gold contained in the bullion is stated, on all hands, to amount to nearly 45 per cent. When the incalculable wealth of the

new mines is described, the value of the gold is of course included. In the earlier days, when accounts first reached Europe of the Nevada discoveries, no distinction was drawn, and the total value of the bullion reported to be found was supposed to be silver. Hence arose exaggerated estimates and fears of a much greater production than what has actually taken place. Nevertheless, this rich admixture of gold has a most important bearing on possible supplies of silver, not in the direction of counteracting the addition to the silver market, but, on the contrary, in the direction of heightening its effect. We have heard the opinion put forth, that as fresh supplies of gold and silver appeared to flow in almost equal proportion from this new source, there was the less apprehension of a disturbance in the value of silver. If an increased production of the two metals took place on the same scale, surely their relative value might be expected to be fairly maintained. This view is clearly quite fallacious; not only because the addition to the supply of gold is infinitely less *in proportion* than the addition to the supply of silver, but because silver and gold are not required for the same purposes, and, above all, not over the same area.

A scarcity of gold may exist, causing the eager absorption of a few additional millions of gold, while the identical amount of silver, coming on a market already overstocked, might cause an actual panic and a heavy fall in the price. If silver and gold had continued to relieve each other as partners in the duties of a circulating medium over the same area, the argument would have considerable force; but if gold is wanted for some countries and silver for others; if the gold countries are scantily supplied, and the silver countries over-stocked; no parity in the scale

of increased production will prevent the possibility of decline in the value of one market, while the other may remain undisturbed. The admixture of gold in the silver ore has a very different effect. The quantity of gold may be so large that its value will alone pay the expenses of the mine, so that the silver may be said to be produced gratis. If of the total value of the bullion only one-third was gold—and the proportion is in fact nearer one-half—the gold alone would have paid the whole expense of the mine, and the whole silver produced would have represented net profits. What does this mean? It means that so long as this state of things exists, so long as expenses do not increase and gold is found in the same proportion, no fall in the silver market will arrest production in these mines. The proprietors would gain less, but still they would gain. They escape from the risks of working at a loss if silver declines. They may contemplate with comparative equanimity, though not with indifference, fluctuations in price which to mine-owners in Chili or Mexico would bring ruin and despair. How long the Nevada mines may fulfil the hopes of their owners by continuing to yield on their present or even on an increasing scale, we profess ourselves, after the most careful perusal of the evidence, quite unable to judge; but it seems proved that, irrespective of quantity, the peculiar quality of their ore is such as to render their working more independent of the price their silver will fetch than is commonly the case with mining industry.

On the other hand, the question may well be put, Will the proprietors of other silver mines be able to compete with the explorers of Nevada? What percentage of profits has been made on silver mines in Mexico and South America, while silver was worth 5*s.*

an ounce? If that percentage of profits was not more than 15 per cent. on an average, the profits are now swept away. The present price of silver must of necessity, one would think, compel the closing of some mines. The poorer class can clearly not contend against such a decline. If 'a perfect mountain of silver' enriches the courageous prospectors of Nevada, the production will be curtailed elsewhere, where the proportion of gold is insignificant, and every ton of silver ore must yield its own proportion of profits.

The Government, if it desires to form an opinion, and to assist the public in forming theirs, on the probable future production of silver, should instruct its representatives in the United States to furnish continuous information on the progress of the new discovery, and the fulfilment of the expectations raised; but they should at the same time not neglect to ascertain, so far as they have the means, the effects of the fall in price on the production elsewhere, and to collect evidence as to the percentage of profits and the prices of silver which would enable silver mines still to be worked in those countries to which twenty years ago the world looked exclusively for its supplies.

The second great cause of the depreciation of silver is stated by the Committee to be 'the fall in the surplus supplies which have been thrown, or may still be expected to be thrown, on the silver market by the measures taken in Germany with reference to the silver coinage.' We shall not attempt to follow the Committee through their description of the various stages of this gigantic operation. The series of laws passed, and the several steps taken, are set out in the Report in considerable detail. The Committee had received from the German Government a complete set

of all the official printed documents bearing on the late monetary changes. The previous accumulation of a vast store of the metal to be substituted; the equitable adjustment of the rate at which the exchange is to be effected; the consideration of existing contracts and vested interests; the predilections of the public for various coins; the length of the various periods of transition; the temporary concurrent circulation of old silver and new gold; the relations of the new coins to the foreign exchanges; the probable requirements in subsidiary or token coinage; the estimates of the quantity of coin to be withdrawn; the ultimate falsification of expectations; and the miscalculation as to amounts; in fact, every possible incident or consideration which can arise in connexion with a change of currency, will be found to be treated in these documents with all the elaborate and scientific treatment which Germans bring to such work. We must not linger on these topics, interesting as they are; nor can we stop to probe the suggestive question as to the success which has attended the ambitious operation which, flushed with an indemnity of £200,000,000, the German Empire undertook as an appropriate financial commemoration of their stupendous victory. The unification of the currency was doubtless a necessary and admirable sequel to the unification of Germany into one Empire, and it was a fitting symbol of the union achieved that new coins with the common effigy of the Imperial power should replace the multitudinous coins which, stamped with the motley devices of many separate kingdoms and principalities, bore significant witness to the divisions and subdivisions of German nationality.

As to the wisdom of the change from silver to gold, the views taken in Germany, even amongst the highest

authorities, are far from unanimous. English opinion would indeed be ungrateful, if it did not give an enthusiastic approval to the change. For English example, and the writings of English economists, inspired the idea, though it might be cynically added that occasional English raids on the German silver market, which perturbed the circulation at inconvenient moments, no doubt gave a decided stimulus to the plan. But the universal loyalty to a gold standard in this country, based as it is on the suitability of gold both to our vast international transactions and to our domestic habits and circumstances, is not conclusive evidence that gold must in all countries, even though they be quite differently situated from our own, be necessarily more convenient and desirable than silver for currency. On this point we pronounce no opinion; we only place a protest on record against any argument in favour of a silver currency, in other countries than our own, being treated with contemptuous indignation.

We gather on the whole that the surplus silver to be expected from Germany is far less than was originally anticipated. The first figures were appalling. The first fact to be ascertained was clearly the total amount of silver coins known to have been struck and issued in Germany, looking back over a long series of years. This element would form the basis of every calculation, and it was possible to ascertain it with entire accuracy. Since 1760 the value of silver coins manufactured and issued in Germany was £89,000,000. The question then arises, if silver coins to this amount have been issued since 1760, what amount was probably in circulation when the recent coinage change commenced? Here was a splendid statistical problem, and full justice has been done to it by the German public. Statisticians and bankers, ministers and

deputies, threw themselves into a spirited controversy with the greatest ardour, and have continued it up to this moment with unabated vigour.

The field for speculative statics offered by the wide range of contributing causes and circumstantial evidence was vast. The statisticians maximized, the ministers minimized, the deputies criticized the ministerial estimates; the bankers disbelieved every estimate alike. Under the circumstances we cannot be surprised that the Committee have not made themselves responsible for any particular figure.

From the total amount in circulation when the laws were passed, two amounts had to be deducted before arriving at the stock of silver remaining to be sold—the aggregate of the sales already made, and the quantity which would be required for the new subsidiary coinage. The total value represented by the sales already made was stated to be officially about £6,000,000 on April 26, 1876. The quantity of silver required for new subsidiary coinage could not be known with equal accuracy. We find a provisional amount fixed by law, but still it is only an estimate. The calculation has been that silver token coins should be struck at the rate of about ten shillings per head of the population of the Empire. The population being upwards of 40,000,000, a sum of upwards of £20,000,000 will be absorbed for this purpose. And on this basis, and taking into account only the amounts already sold, what surplus stock are we to expect? About £89,000,000 had been coined. Not more than £30,000,000 are accounted for by the estimated needs of the subsidiary currency and the quantity already disposed of. How much, then, remains to be sold?

That very large sums have disappeared owing to the various causes—such as the export of silver for various

purposes, the ordinary wear and tear of coins, the amount used in manufacture of plate and ornaments, and the like—which operate to diminish any metallic currency, is universally admitted; but, as might be expected, the divergence in the estimates of what remains to be sold is immense. They appear to range from £8,000,000 to £30,000,000, the latter sum being about equal to the total production of the world for two whole years. Still it is important to distinguish between the maximum amount based on actual calculation and the vague views in which the total amount of the silver coins issued in Germany figured as the most prominent element. Till a comparatively late date, estimates varying between £50,000,000 and £60,000,000 of surplus silver were very currently entertained. Now that exhaustive controversies and some experience in the retirement of the smaller series of coin, and an examination of the stocks of silver held in the tills and vaults of banks, or in Government receiving offices, and local treasuries, have supplied better means for forming an opinion, it is possible to come to closer quarters. The minimum estimate of £8,000,000 is doubtless too low, but it is certainly not probable that a surplus of as much as £30,000,000 will be reached. The German ministers base their argument mainly on the absence of evidence as to the whereabouts of so large a surplus, if such a surplus is ultimately to appear. It is not to be traced in those places through which a circulating medium generally circulates. If it exists it must be hidden away. Or, if neither hidden away nor circulating through pay-offices, banks, and treasuries, through those channels and receptacles which belong to the larger transactions in which coin is used, it must be performing the identical duties for which the employment of silver, though in the humbler

guise of subsidiary coinage, is still reserved. It must be engaged in making the little domestic payments, which, in a country where not one lady in a thousand has a cheque-book, where cooks pay ready-money in the market for the wants of each day, and the weekly or monthly bills of English households are almost unkown, reach in the aggregate a gigantic amount. It is very doubtful whether, in view of such circumstances, the estimate of a total subsidiary coinage of £20,000,000 will suffice. If large quantities of silver coin are thus actively engaged they will continue to be wanted. The silver may exist, but it will have to be recoined, not to be sold.

Such are the arguments which may be cited in support of the notion that the surplus silver in Germany, though still very considerable, will not reach such alarming proportions as those to which the quantity of silver, which certainly once circulated in Germany, seemed originally to point. The withdrawal of a vast quantity of small bank-notes has materially contributed to this result. On the whole, even if we do not share the view of Herr Camphausen, the Prussian Minister of Finance, who assured the German Parliament that the transaction had been a matter of child's play, it certainly appears that the proportions of the immense operation have dwindled in the course of its execution. Yet the Germans have been deeply disappointed. They are burdened with less silver to exchange for gold than they had feared; but in their forecast of the possible troubles before them, they seem never to have dreamt of the violent fall which has occurred, or of a bottomless market.

Of the secrets of Nevada they could, of course, have no inkling. They could not foresee the rivalry of the Comstock Lode. But they have been deceived in

another respect. They courted purchasers and the purchasers have kept aloof. They are said to have fondly thought that the tempting opportunity of buying silver would be obligingly utilized by the neighbouring Powers, possibly even that Russia and Austria would profit by the occasion to build up once more a metallic currency. At the worst they knew, or thought they knew, that France and Belgium with their double standard would be convenient receptacles into which silver might be poured as legal tender, spreading the effect of any fall in price over an area as vast as the aggregate currencies of the Latin Union. Alas! most European Powers were painfully inconsiderate. Events took quite a different turn. Russia and Austria with their paper currencies let the 'silver opportunity' slip. Several countries followed suit with Germany, and instead of buying silver sold it themselves. The Scandinavian kingdoms demonetized silver and introduced gold. Holland made gold a legal tender, and the whole of the Latin Union suddenly barred the doors of their mints, refusing public admittance to the metal they had been expected to absorb, and only passing in a limited quantity by ticket. Germany was deeply disappointed, and silver fell twenty per cent.

But there was to be another unfortunate coincidence. A third cause, entirely disconnected with the coinage operation in Germany or the discovery of the Nevada mines, strangely enough also came into operation at the same time, and heightening the effect which has already created so much sensation, gave the *coup de grâce* to the market. India has for a long series of years absorbed an annual amount of silver which was counted by millions. In most countries there is an

ebb and flow of the precious metals. According to the varying balance of trade, and indeed according to a thousand other circumstances, peace or war, prosperity or panic, Government loans or private speculation, the waves of bullion advance and retreat, requiring, like the waves of the ocean, most scientific watchfulness if we wish to study their periods or to measure their length and height. But the set of the stream of silver to the East seemed as steady and certain as the Gulf Stream. No limit as to quantity seemed to exist. Sixty-three millions sterling were poured in during the five years between 1861 and 1866, the period of the cotton famine, but still the stream flowed on. During the next four years nearly £30,000,000 more were added to the stock. Upwards of £90,000,000 of silver were retained in India in the course of nine years! In 1870–1 came the first check. Little more than £3,000,000 were absorbed, but the check seemed simply to be temporary, for in 1871–2 the quantity rose once more to £6,500,000. But in the next year, when Nevada and Germany were preparing to flood the world with rival supplies in undreamed-of proportions, the demand for India suddenly fell, and the surplus of the imports of silver over the exports dwindled for that year to £700,000! Larger sums were dispatched in the two following years, but still infinitely less than in any year since 1858, and in 1875–6 the quantity dropped to little more than £1,500,000! No wonder that silver fell, no wonder that the fall seemed bottomless. Fresh sources of supply of mysterious and incalculable magnitude and an unprecedented decline in the requirements for the East!

The Committee present voluminous tables showing the movements in the exports and imports of general

merchandise as well as of treasure into India. They prove the remarkable fact that, as far as general trade is concerned, no sufficient changes have occurred to explain the diminished demand for silver. It is true that the amount required to be remitted to India to settle balances was lower than in former years, but only lower to a very small extent. The cause of the diminished import of silver into India had accordingly to be sought elsewhere. It was clearly found in another fact: 'in a change of the *mode* of remittance.' The increased sale of Government bills on India has supplied means for making payments in India which have displaced an equal amount of bullion remittances. The aggregate amount sent to India in bills and treasure together during the last four years was £67,000,000. During the previous four years it had been £69,000,000, scarcely an appreciable difference when distributed over four years. But the change in the mode of remittance was most significant. In the former period, *forty millions* were dispatched in gold and silver, and a little less than *thirty millions* in Government bills. In the last four years the dispatch of bullion did not reach *seventeen millions*, while upwards of *fifty millions* were sent in Government bills. It will be seen how completely the proportions were reversed, and how fully the decline in the demand for silver is explained. The diminution in specie remittances was divided between gold and silver, but was greatest by far in the case of the latter metal. The Committee, speaking of the diminished imports of silver to the East, accordingly state:—

'Whatever these effects may be, they are simply to be accounted for by the large amount of bills on India which the Indian Government have now annually to sell. It may be said that their requirements are in

round numbers about £1,250,000 per month, or £15,000,000 per annum. This is the sum which has to be paid annually by India to England, and this sum, *pro tanto*, displaces the dispatch of bullion. It appears that previous to 1862–3, the bills drawn in England never reached the sum of £4,000,000. The excess of the present requirements is, therefore, £11,000,000.'

We need not dwell on the significance of these figures. They speak very plainly for themselves. If the treasures of Nevada had remained buried in the earth, and Germany had never troubled the waters by the great change she has made, the portentous increase in the bills drawn by England on India for Government account could not have failed to have exercised a marked effect. It is for the public good that serious attention has been excited with regard to this remarkable fact. It has important bearings, far beyond its immediate effects on the price of silver. It is a very grave financial and political fact. Unfortunately, it does not appear that any abnormal causes are contributing to increase the amount. Fifteen millions sterling per annum seem to represent, to use the words of the Committee, 'the present normal expenditure of the Home Government,' and, 'unless by some marked change of policy, no diminution of that amount can be looked for.' The full effect of these increased requirements has only recently been felt. For a time the growing bulk of this tribute was hidden, and its effect on the silver market retarded, by the temporary resources which the particular financial mode in which the expenditure for the construction of railways in India was met afforded to the Government. The Committee say:—

'So long as railways were in course of construction in India on an extended scale, and money was being

raised in this country for their construction, funds which were to be spent in India on wages or other expenses came into the hands of the Government here, and were paid out by the Government in India. . . . The Government were thus furnished with funds to that extent without the necessity of drawing bills; or, to put the matter in a different form, so much more money had to be remitted to India in one form or another; the proceeds of the railway loans (so far as they were not spent on materials purchased in England) passed over to India. The Government did not themselves remit silver, having silver at their disposal in India, but they had so much less silver to pass over to merchants in India, and accordingly the merchants had to buy and remit so much more silver themselves.'

This resource is now not only exhausted, but it has left behind it effects operating in the reverse direction. Whereas the Government used to *receive* money in England by encashing the proceeds of the railway loans, it has now to *pay* in England the interest on these loans. Its receipts have diminished, its disbursements increased. The advantage was temporary, the burden is unfortunately permanent.

We will not dilate on the interesting question which we have already touched on, as to the power of India to absorb more silver in the future. As surely as water finds its level, so surely will silver find its way to regions where it is legal tender. Nor are we prepared to say, irrespective of this economical law, that even the heavy charge which we have described exhausts the capacity of our Indian Empire. The demand for silver in India appears to be absolutely inexhaustible, and possibly her population will rather forego the purchase of a certain portion of European goods, and devote a portion of the proceeds of their exports, after the fifteen

millions are paid, to the importation of silver, than leave unsatisfied that craving for the possession of the precious metal which is so characteristic of an Oriental race.

The action taken by the 'Latin Monetary Union' brings us to a different branch of the subject. The members of the Union took measures, in 1874, for limiting the conversion of silver bullion into coin. These measures are, no doubt, correctly described as having contributed to the fall in the price. They closed large outlets. They cut short a natural demand. But unlike the causes which we have analysed hitherto, they were themselves the consequences of the alarm which those others called forth. They were not steps taken voluntarily, like the change of currency in Germany, nor were they forced on by exigencies extraneous to the silver question, like the necessity for drawing bills on India. They were the direct but unwelcome consequences of the action taken by Germany, and of the threatening aspect of the silver market. We have already stated with emphasis that silver must flow to those countries where it is a legal tender. Silver was legal tender in the Latin Monetary Union. Silver therefore would, in the natural course of events, if not in demand elsewhere, flood those countries. The members of the Union became alarmed. They were peculiarly situated. Silver was falling in value as compared with gold, and debtors under the reign of the double standard could choose whichever metal they liked in which to discharge their debts. Silver would therefore be introduced in unlimited quantities, and expel gold to those countries where its falling rival could no longer command its average price. How could

the risk be prevented? The danger has been met by a common agreement among the members of the Union to suspend the privilege of presenting silver bullion to the mints for exchange into coin. Silver coins within those countries retain their character of legal tender. The metal has been demonetized, but not the coin. A five-franc piece has the same position as before. We have not learnt that it has lost any of its purchasing power nor that it is in any way discredited. On the contrary, there is evidence that no discredit attaches thus far to silver coins. But only limited sums can be turned into *new* coin.

We have heard the proposal made to apply this remedy to India. It has answered its purpose, it is alleged, in Europe; why not imitate the example? We can at once adduce conclusive proof of the absence of analogy between the two cases. In the Latin Union such decrees left gold, the second legal tender, untouched. No limitation was placed on gold. The circulation could be increased *ad infinitum*, or rather according to the self-acting process which the identity between bullion in bars and bullion in coins creates, so long as the mints are open without restriction. But in India silver is the sole legal tender. If, therefore, the self-acting process is destroyed and the mints are closed, a limit is at once placed on the circulation. Coins become a monopoly, and while the law declares that rupees are the sole form of legal tender, debtors or payers, if we may use the word, would be deprived of the power of importing the means of payment from abroad, if the supply at home ran short. So long as anybody can procure silver and claim to have it changed into rupees, so long he can add to the circulation. In the Latin Union, the circulation could be increased at will by the holders

both of silver and gold. Through the exclusion of silver, the power to create circulation is reduced by one-half, but still no limit is created. Gold remains an unlimited resource. But if silver bullion in India ceased to be practically on the same footing as silver coin, that is to say if excluded from the mints, the invaluable self-acting and expansive process, which lies at the root of a currency based on bullion, would be lost. The measure is impracticable and most inequitable, *unless gold be made a legal tender at the same time.*

We have briefly described the several causes which, during the last four years, have shaken confidence in the stability of the value of silver to such an extent that its summary rejection as a standard of exchange has been very generally discussed; and we must fully admit that the situation has amply justified any degree of apprehension. We are loth to stigmatize that apprehension as panic. We should call it natural and legitimate alarm. Time may modify the effects produced. Compensating influences will probably set in. The law of compensation in the movements of trade works with extraordinary certainty; but the almost simultaneous appearance of three entirely distinct influences, each of most uncertain magnitude, except that each was undoubtedly great and all likely to depress the silver market for a period which defied calculation, naturally created an impression that the fall might be bottomless.

How remarkably the facts come out if chronologically arranged!

1871. Germany resolves on the demonetization of silver. The gross amount of silver which had been coined and issued in Germany was said to amount to nearly £90,000,000.

1872. The yield of the United States silver mines approaches £6,000,000. In 1870 it scarcely exceeded half that amount.

1872–3. The imports of silver to India fall from £6,500,000 to £750,000. The Indian Government sells bills for £14,000,000, precisely double what they had sold three years before.

1874. Astonishing accounts reach Europe of fresh discoveries in the Comstock Lode. The members of the Latin Union close their mints against silver.

1876. The yield of the United States silver mines is estimated at from £9,000,000 to £10,000,000.

But if these strides are gigantic when chronologically arranged, they appear no less so when stated in proportions. The production in 1876 is expected to be *double* the amount produced in years previous to 1682. The German operations may result in throwing a supply on the market equal to the production of *four* years on the old scale. The addition to the drafts of the Indian Council is equal to almost *one* year's production on the old scale. If Germany, spreading the sale of her surplus silver over a series of years, should find herself able to sell £4,000,000 annually, the old scale and the new scale would compare as follows—

Old Scale	*Present Scale*	£
Total annual production, £8,000,000.	Total annual production .	16,000,000
	Supplies from Germany .	4,000,000
	Additional Council drafts (which take the place of silver)	8,000,000
		28,000,000

The new scale is three times and a half as large as the old! Who is to purchase the additional supplies?

What has become of the surplus hitherto; what will become of it hereafter?

As to the 'hereafter,' the Report of the Committee is very cautious, but as to the mode in which the increasing supplies have been hitherto absorbed, full and significant details are furnished. Under the heading 'General Movements of Silver,' the Committee trace, country by country, the disposal of all the silver produced or thrown on the market as a surplus stock during the four years 1872 to 1875, and strike, as it were, a balance-sheet of the result. The amount to be accounted for was £54,000,000 after the requirements of India had been satisfied, compared with £18,000,000, the corresponding sum for the previous four years! And this was not all. Austria and Italy added to the surplus stock, and the grand total to be accounted for was nearly £75,000,000.

Within a single million the Committee account for the whole of this sum in their review of the purchasing countries. A very short table shows the result.

		£
Taken by	India	9,100,000
„	France	33,500,000
„	Russia	4,000,000
„	Spain and Portugal	4,000,000
„	England	5,000,000
„	United States	7,600,000
„	Japan and China	7,500,000
„	The East (other than India, China, and Japan)	3,000,000
	Total 1872 to 1875	73,700,000

Here there is a list of the past customers of silver. Are they regular customers on whom the market can rely? or speculative customers who have taken advantage of the fall? or chance customers whom a temporary

need had brought to the rescue? Almost each of the lines of this short table contains a little history of its own, and represents a not uneventful chronicle. The stability of English institutions is reproduced in the line allotted to her. Her imports and exports are large, but they are not for herself. For her own use she has taken, with remarkable regularity, £1,250,000 each year. She is a regular customer on a small scale. No surplus stocks of any moment can be absorbed by England.

Spain and Russia have also bought, but as spasmodic customers. We do not know whether it is true that the silver taken by Spain was bought for the use of the armies in the field during her protracted civil wars. But, in any case, Spain could certainly not be counted as a permanent buyer. As for Russia, who can say what we ought to expect? Germany hoped that her Imperial neighbour might be allured to buy for the purpose of currency reform; but the hope has been in vain.

The great relief to the market came from a quarter least expected. The figure which starts into prominence amongst the recorded purchases of silver is that which chronicles the doings of France. No line in the table is equally interesting or eloquent. The financial history of France during the last four years is indeed full of the most instructive lessons. Her immense recuperative power has risen superior to every disaster, and her budgets have been as creditable to her statesmen and to her patriotism as they have been conspicuous by the elasticity and growth of her resources. The nation which has paid an indemnity of £200,000,000 has, since the payment, been financially and commercially more successful than the nation that received it; a problem which deserves to be probed to the

bottom by statesmen and economists. But what we are now concerned to know is simply that, drained of the precious metals by the strain of the war and its penalties, she has, since then, replenished her stock to a marvellous extent. The dwindled contents of the coffers of the Bank of France have now once more reached an almost fabulous sum, and, though bank-notes are legal tender, France has absorbed more than £33,000,000 of silver during the last four years. She has replenished her stock at the most critical moment. She has bought five times as much as Germany has hitherto sold. But all seemed due to natural causes. The work seemed to do itself. No attention has ever been paid to the operation. No public notice was excited, and to such an extent does the recovery of the silver stock in France seem to have been self-acting and a simple matter of course, that, till lately, it was almost unknown. Indeed, the fact itself was discredited till indisputable proofs were adduced. Clearly, the large absorption of silver by France long delayed the fall in the silver market, and must have averted a much severer decline. But France must be considered to have been an *extraordinary* customer. The replenishment of her stock can scarcely be regarded as other than a temporary circumstance. It is impossible to assume that it could be continued on the same scale. The natural inference to be drawn would be in the opposite direction. With the mints of the Latin Union, including those of France herself, closed against silver bullion, her large imports must be brought abruptly to a close. Till the horizon clears, no hopes can be built on the action of France, nor can the eyes of producers of silver be turned with any confidence to Belgium or Holland. Where, then, can silver find a refuge?

Some consolation is to be found on the other side of the Atlantic. The United States appear on the scene as a country prepared to profit by the opportunity, as a speculative customer who has an eye to a good bargain. The temptation is double. They have become the largest producers of silver, and silver is so cheap that they can introduce it once more into their currency on extraordinarily advantageous terms. They are not prepared to refuse help to native industry. They have compassion on home producers. A 'silver interest' has sprung up; indeed we are not sure whether it may not already be termed a silver 'ring.' Politicians cannot ignore it. A market for silver must be found. Already laws have been passed for redeeming the paper 'fractional' currency by silver coins. For this purpose £8,000,000 will be wanted. The 'Director of the Mint' speaks of an amount of 75,000,000 silver dollars (£15,000,000) as likely to be coined 'for limited legal tender.' He hints at special coinages of silver, and at other measures in the same direction. Private members at Washington are introducing bill after bill to give silver a lift. The success and extent of the movement cannot well be foreseen, but much of the silver produced has already been bought up at home. Thus far, indeed, no surplus supplies seem to be reaching Europe from the United States. Increased production has not led to increased export, and the patriotic ardour of the silver 'ring' has had its effect on the market at large. The abnormal demand in America for currency purposes can be set against the abnormal supply produced by the coinage operations in Germany.

But if the policy pursued at Washington offers some consolation, it can scarcely be said to inspire hope; and though we may pair off the United States

with Germany, the surplus production still remains. The list of European countries contained, as we have seen, no promising purchaser. The East, then, alone remains. It is from the East that relief must come. The regions where silver is still legal tender must determine its ultimate price. They alone are likely to absorb unlimited quantities, but the absorption must be a matter of time, and no one can at present foresee the effect of that process on prices.

In the meantime what should be done? 'Dethrone silver at once,' cries Monsieur Chevalier. 'It will go from bad to worse.' 'Rescue silver at once from its peril,' cries Monsieur Cernuschi. 'Let all nations, by a common act, draw up permanent articles of partnership between silver and gold!' Other plans do not reach such cosmopolitan proportions, but the proposal to demonetize silver in India is itself sweeping enough. We have expressed our own belief that we are witnessing at this moment a very incomplete phenomenon, and that no irrevocable steps should be taken till we know more. We do not wish to be understood to mean that the Indian Government should, in no case, have recourse to temporary administrative remedies. If it should be proved that though prices in India have not risen, the fall in the exchanges bears so heavily on the salaries of Indian officials that they no longer fulfil the conditions which were intended when they were fixed, let temporary measures be taken accordingly. Very possibly the Indian Government may be called upon to act in many other instances, but the essential condition of such action should be that the future ratio of value between gold and silver should be considered as an entirely open question, and that the policy of dealing with the currency should, for the present, be reserved.

Meanwhile great progress might be made towards arriving at a correct conclusion on matters of fact. It would be indeed a signal service rendered to those vast interests which are touched by the depreciation of silver, if the German Government could be induced to remove as far as possible the mystery which still surrounds the question of their disposable stocks. No doubt they are puzzled themselves. To our own Government we ought to be able to look for further authoritative information on many important points. The India Office will doubtless furnish elaborate data in regard to the action of the depreciation of silver in the East; but the Foreign Office, too, must be kept up to the mark. We trust that our diplomatists will be instructed to continue to report exhaustively and intelligently. The very interesting materials relating to most foreign countries, supplied through the Foreign Office, should be completed and brought down to the latest date. At home, it would be well if an official of high rank, combining, if possible, enthusiasm in research with accuracy of judgment (and we could point out several such men), were told off, to whom every occurrence in Europe should be interesting in proportion to its bearing on the silver question; to whom politics should mean monetary legislation, war a possible displacement of bullion, and revolution paper issues. The materials supplied by the Foreign Office, the India Office, and the Board of Trade would be doubly valuable if concentrated in the hands of one responsible person, to be sifted and arranged and considered as a whole, with official impartiality, yet with scientific intelligence and care. A knowledge of facts thus obtained and presented, would be a most useful corrective of opinions expressed in pamphlets, compiled with fanatical bias by currency specialists, and

of one-sided views, locally formed, without reference to broader considerations or experience dearly bought elsewhere. The utilization of such knowledge for legislative purposes, if legislation should eventually prove to be necessary or expedient, is a subsequent and graver question.

THE DEPRECIATION OF SILVER

Supplemental Note

The chief interest to the British reader in the subsequent story of the depreciation of silver must centre round the fate of the Indian currency. Seventeen years elapsed before the British Government saw their way to grapple with it. Much had happened in the interval. The production of silver, which in 1876 amounted to about £16,000,000, equivalent to about 80,000,000 ounces, reached about 148,000,000 ounces in 1891, 153,000,000 ounces in 1892, and 160,000,000 ounces in 1893[1].

The silver market naturally passed through corresponding extraordinary fluctuations. No estimate could be formed of the point at which it might ultimately settle down, if, indeed, it ever settled down at all. The only hope seemed to lie in an international agreement as to currency, and all efforts to arrive at such an agreement were to prove abortive. The powerful silver party in the United States, as anticipated in the preceding article, left no stone unturned to force their views on their own Government, and constant pressure was applied in the hope of bringing round Europe to the conviction that the general interest required united action. The free coinage of silver everywhere and the establishment of a fixed ratio between its value and that of gold,

[1] In 1903 the estimated amount of the production of silver was 173,000,000 ounces.

were the key-stone to the maintenance of its price. Yet what nation could be expected to be willing to agree to such free coinage when all its neighbours might use the opportunity for the purpose of relieving themselves of their own depreciated stock! The only chance lay in bringing in a great majority of the silver-using countries into a Union more powerful and far wider than what had been known as the Latin Union.

Early in 1878 the fierce struggle between the silver magnates and the Executive Government of the United States, which aimed at a sounder currency policy, ended in the famous 'Bland Bill,' a Bill 'to authorize the coinage of the standard silver dollar and to restore its legal tender character.' A singular clause in the Bill imposed the duty on the President to initiate an International Conference. The Conference was held in Paris. I was one of the British Delegates on the occasion, and witnessed the hopeless efforts of the gathering to arrive at any conclusion. We ended simply with pious aspirations and a firm conviction that the failure of the Conference threatened the silver interests with a yet more disastrous future.

But the United States would not regard the game as lost. Encouraged by the suspension of the sales of silver in Germany in 1879, and relying on the redoubled energies of the bi-metallists in other countries, they invited the Powers to another International Conference in 1881. Paris was again the meeting place. After lengthened sittings the Americans were once more courteously bowed out.

And the price of silver continued to decline! By the year 1886 it stood at 3*s.* 6*d.* per ounce—a terrible fall since the Conference of 1881, when it stood at about 4*s.* 3½*d.* The British Government could no

longer remain passive in face of the situation in India. The Indian Government was clamorous. The situation seemed unendurable. So the Home Government appointed a Royal Commission under the Presidency of Lord Herschell 'to inquire into the changes in the relative value of the precious metals.' The Commission was a strong one, so strong that unanimity was out of the question. Two conflicting reports, each backed by high financial authorities, offered no guidance to the Government. India had to struggle on as best she could.

Meanwhile the United States were keeping up a desperate struggle, purchasing millions of ounces of silver under the Bland Act every year, and coining them into standard silver dollars. The silver interest refused to be beaten, but gradually was forced to retreat. In 1890 the Bland Act was superseded by the Sherman Act, under which the coinage of silver dollars was to cease by a given date, but the Treasury was directed to purchase a specified amount of silver at the market-price, against which silver Treasury legal-tender-notes were to be issued. The American legislation maintained and fitfully varied the price of silver, but unless Europe came to the rescue the policy was doomed to collapse.

Undeterred by previous disappointment, the United States made a last effort to persuade Europe, if not to adopt bi-metallism, at least to come to some arrangement which would increase the uses of silver as currency. Europe was complaisant though obdurate, and agreed to a Conference to be held at Brussels.

The Indian Government meanwhile had become absolutely convinced that no international agreement was possible, that the new Conference must fail, that the States would be compelled to renounce the hope

of keeping up the price of silver; that the closing of the Indian mints against the free coinage of silver had become the only possible policy; and accordingly they urged the Home Government, in the event of the failure of the Conference, to sanction such a policy with a view *to the introduction of a gold standard.*

The detailed proposals of the Indian Government were referred to a Committee of which Lord Herschell was again chairman. While the Committee were deliberating the Brussels Conference broke up without having arrived at any definite conclusion; and no further attempt has since been made at international agreement.

The Herschell Committee reported in May, 1893, and in accordance with its recommendations:

1. The Indian mints were closed to the coinage of silver to the public.

2. The Government undertook to issue to the public currency-notes and silver rupees in exchange for *gold coin and bullion*, at the rate of 1*s.* 4*d.* the rupee, or fifteen rupees to the £ sterling.

3. The Government undertook to accept, in payment of sums due by the public, sovereigns and half-sovereigns at the same ratio.

Gold was thus summoned to the rescue, but it was not yet made legal tender. The rupee was dissociated entirely from the value of the silver it contained. It acquired an artificial value. The downward tendency was partially checked; the existing rupee acquired a monopoly value through being the only legal tender, but the situation was saved by the enactment that, at a certain price, rupees could be bought for gold.

It will be remembered that in 1876 I declared that if silver bullion in India ceased to be practically on the same footing as silver coin, that is to say if it was

excluded from the mint, the measure would be impracticable and inequitable *unless gold were made a legal tender at the same time.* The arrangements just described, introducing gold on the scene to give help in case of need towards a greater supply of rupees, no doubt met the objection to a very considerable extent; but, as was certainly anticipated by the authors of the measure, it could only be a stage towards the establishment of gold in the recognized position of legal tender.

But for four years, for reasons which it would be an interesting but too long a task to examine here, the closing of the mints to silver bullion did not make itself felt; and the rupee, though considerably higher than its intrinsic value, remained below the figure of 1*s.* 4*d.* at which the public could demand rupees for gold; and no gold was brought to the Government under the law of 1893. But it was not surprising that when, in 1898, owing to various causes, there was great stringency in the Indian money-market, it was found that the time had arrived for expediting the effective establishment of a complete gold standard. The existing arrangements were too artificial, the uncertainty as to the future value of the rupee too great; and, after consultation with the Home Government, the final step was taken, the revolution was accomplished, and by an Act of the Indian legislature, passed in September, 1899, English gold coin was declared legal tender in India at the rate of one sovereign for fifteen rupees. This is of course equivalent to a value of 1*s.* 4*d.* per rupee, and since then the exchange value of the rupee has been maintained practically at that rate. The policy finally adopted has given that stability to Indian currency which was indispensable to the prosperity of the country under

the changed conditions of the precious metals; but the silver in the rupees in circulation is not worth 1*s.* 4*d.*, and the hoards of silver bullion and the silver jewellery in the possession of the natives have remained exposed to the full force of the metal's phenomenal decline.

THE CONDITION AND PROSPECTS OF TRADE

Introductory Note

The following address, delivered to the Manchester Chamber of Commerce early in 1885, requires little introduction or explanation. Though written twenty years ago, the reader may possibly almost fancy as he peruses it, that he has a chapter of the present Fiscal controversy before him. The country was anxious about its trade and uneasy about the comparatively greater advance in commercial transactions achieved by its foreign competitors, which was comparatively greater than its own. A period of depression—a depression, as in 1867 not exorcised by the fact that money was at 2 per cent.—had called the champions of many heretical remedies into prominent activity. Protectionists and Fairtraders, Bi-metallists and Inflationists, were all to the fore with their panaceas. The causes assigned for the gloomy position were very various; so-called 'over-production,' the 'depreciation of gold,' the 'demonetization of silver,' the 'Bank Charter Act,' all were charged in turn with contributing to the fall in prices, a fall which, beneficent in many ways, was deplored in other quarters as a national disaster. Under these circumstances, I applied to the situation in some detail the different tests of national prosperity (all of which are now in constant use), the Income-Tax returns, the tables of exports and imports, the

statistics of consumption, of pauperism and the like; but to me the main point of interest in my review was the examination of our position as regards the growing competition of foreign countries. I shall be found to have looked the extent and scope of that competition straight in the face, to have enumerated the advantages which in the past had secured us our commercial supremacy, and to have stated my view as to which of such advantages we should still be able to command, and which, in the changed situation of Europe, we could not reasonably expect to retain. I may fairly say that I fearlessly probed the condition of things and forestalled, in more senses than one, the inquiries which are being conducted to-day. As the result of my investigations the extreme importance to us of the Colonies forced itself upon me at every point. The analysis of our exports showed that while our trade with the great European countries was hanging fire, our transactions with our fellow subjects beyond the seas were undergoing marvellous developments, and both as statesman and economist I endeavoured to impress the British public with the facts. If I did not recommend the same measures for pushing our advantages as the present Tariff Reformers, I was not less urgent than they in proclaiming on every possible occasion the value of our colonial possessions. Looking to the extension of the colonial markets, I pointed out that most certainly our best hope lay in the prospect that the teeming millions of the old country might find customers in the increasing millions of Greater Britain beyond the Seas. It was a question, I urged, not only for statesmen and politicians, but one for the working-classes, for every trader, for every manufacturer, for every merchant.

It was in this spirit I summed up my address on the condition and prospects of trade at Manchester. But not only there, but in various parts of the country I dwelt on the same theme. During the electoral campaign of 1885 it formed a serious part of my utterances wherever I went. Finding myself at that time in a kind of detached position, I was able to devote more time than others to the treatment of international and colonial questions outside 'the unauthorized programme' which, promulgated by Mr. Chamberlain, was then absorbing the greater part of public attention. In a modest way, I was 'a missionary of Empire.' A new electorate had been called into power, and to show the working-classes how great was their interest in Imperial questions seemed to me a paramount duty. I venture to quote the following passage from a speech I delivered at Edinburgh as an instance of my endeavours to impress its duty to our Colonies on the new Democracy:—

'The question of the United Empire, the question of our Colonies, is to a great extent a working-men's question. It is they who supply the chief number of the emigrants who go forth to seek their fortunes beyond the seas. It is they who work on the manufactures that are sold to our Australian fellow subjects. It is they who would feel the effects if, in the course of the destiny of this country, any calamity should break up the Colonial Empire: and so I say this is a question which cannot be ignored. It is one which the working-classes must take up. They must hold their statesmen and their public men responsible for attention being paid to our Colonial Empire.'

I added that I should be doing injustice to the subject of our connexion with our Colonies if I were

to speak only of the material advantages which the working-classes would gain and retain by the maintenance of our Colonial Empire. 'We have duties to our Colonies,' I concluded, 'as well as duties to expect from them. I hope that you have gone with me to this point—that our Colonies are to us a matter of Imperial urgency and of Imperial duty, and that this is a duty from which we cannot shrink, a duty which we cannot shirk.'

I trust I may be forgiven this fragment of personal biography: it seemed to me not unconnected with the re-publication of the conclusions at which I arrived when, in 1885, I presented my view of the prospects of British trade to my Manchester audience.

THE CONDITION AND PROSPECTS OF TRADE

AN ADDRESS DELIVERED BEFORE THE MANCHESTER CHAMBER OF COMMERCE, JUNE, 1885

IF I were to follow my own inclinations, I should like to begin my address to-day with a hundred reservations, explanations, and apologies; but the prospect of having to survey, in however brief a form, the vast field of British commerce and industry, warns me that I must lose no time in such preliminaries. Let me simply say by way of preface that I am anxious not to overload my address with figures. Indeed I may sometimes have to take you from point to point, if I may say so, under a covered way, lest an avalanche of statistics should fall upon our path. I shall ask you to take some things for granted. I shall have to advance without protecting my flanks. I may say some things as to which I may not be able to submit my proofs. For I want, above all, to take a broad view of the general situation, and not only of the actual situation in June, 1885; a review of the fluctuations from month to month, or from quarter to quarter, would obscure the larger issues. I should be led away from the broader survey, if I were to dwell too long upon the precise circumstances of a particular moment or of a particular trade.

I call attention in the first instance to the fact that in the present depression we find some features which have seldom been seen before during a similar

state of things. We find the contrast between cheap capital on the one hand, and low prices and no speculation on the other [1], and the contrast between low prices for the raw material, yet with little advantage apparently derived therefrom by commerce and manufactures generally. To another contrast I would ask your particular attention—to the uniform acknowledgement of this depression in trade, side by side with the astounding statistics which are published by the Inland Revenue Office as to the Income-Tax returns. How is it, the country may ask itself, that these show a continual inerease, while every manufacturer and every merchant is complaining of absence of profits? For that is what the present depression is generally taken to mean. What has been mainly complained of, what is instilled into the public mind, is not so much the absence of employment or want of work—though these may exist in many trades—it is the absence of profits, and yet you have these puzzling statistics of the Income-Tax returns! These returns must be examined and analysed lest they should mislead the public, and should create a general feeling that the situation is different from what it actually is. I accordingly proceed in the first instance to such an analysis.

A high authority has lately said that as the gross profits assessed to the Income-Tax had risen in fifteen years from £430,000,000 to £600,000,000, and as no proportion of the increased wealth had gone into the pockets of the landowners, it was fair to assume that this increase was due almost without exception to the growth of British commerce, British manufactures, and British trade. It was added that the volume of

[1] The situation, however, in this respect was similar to that in 1867; vide p. 66.

trade had not diminished, but had actually increased, and that we had lost none of the qualities or conditions which made our success in the past—industry, enterprise, capital—and in our Colonies, at least, we had boundless markets which were expanding every year.

I will defer to a later part of my address what I may have to say as to the changed conditions under which our foreign trade is carried on, and as to the directions in which we may discern expanding markets; but I wish in the first place to examine the statement, that no proportion of the increased wealth has gone into the pockets of the landowners, and that consequently it must be due to the growth of English commerce, English manufactures, and English foreign trade. The difference between £600,000,000 and £430,000,000 is £170,000,000. Is it true that this increase has arisen simply from the increased profits of trade? It is not true, not in the slightest degree true. Why, under Schedule A there is an increase, not in landowners' profits, but in the income derived from houses, of no less a sum than £42,000,000 out of the £170,000,000, of which not a shilling is due to expanding commerce or manufactures. Under Schedule A we find a further increase of £5,000,000 in 'lands.' In Schedule B there is a nominal increase amounting to £11,000,000. Under Schedule C, which represents interest from securities, there is an increase of £6,000,000, and under Schedule E, representing salaries, pensions, &c., an increase of £10,000,000. All these figures together reduce the increase assumed to have taken place simply on the profits of trade and manufactures, from £170,000,000 to £96,000,000. Still this appears a very large and satisfactory sum. But again I have to point out that large deductions must be made from these £96,000,000. There has

been a considerable increase in the income from water-works and gas-works; and a large increase in English railways, in investments in railways outside the United Kingdom, in the profits of canals and docks, &c. I calculate that these, and other profits of a similar nature, reduce the £96,000,000 to a sum of between £60,000,000 and £70,000,000.

But even the heading 'trades and professions' under Schedule D includes far more than the profits of traders and merchants. It includes in addition the profits of a number of classes in the community; the professional classes, the learned classes, clergymen, barristers, actors, newspaper editors, clerks, publicans, the whole variety of professions, all are included under Schedule D. When we bear all this in mind, we shall find that, instead of the increase in the annual profits due to trade and manufacturing industries assumed to have taken place in the last fifteen years being £170,000,000, we come to a very much smaller sum. I have, as you have seen, reduced it specifically to between £60,000,000 and £70,000,000, but I ask, after making the necessary allowances for professions and all employments other than commercial and industrial, How much of what remains may not be due to that trade which is undoubtedly flourishing, namely the retail trade? The retail trade ought to be doing well, because I shall have to put the inquiry by and by, Into whose pockets do the profits flow which must accrue from the reduced cost of the raw material unaccompanied by a proportionate fall in the price paid by the consumer. These profits cannot vanish, they must be found somewhere. Let us congratulate ourselves, at all events, if the retail trade is generally in a satisfactory condition [1].

[1] I have not scrupled to retain this analysis of the Income-Tax

If the facts here enumerated have been correctly stated, it would appear to follow that, on a further analysis of the Income-Tax returns, we ought to find a greater increase in the smaller than in the larger incomes. Tables which have been published, and other materials which I have had at my command, enable me to test this inference. I take the years 1876–7 and 1882–3. I find that between these years the increase in the assessments of incomes under £500 has been 6 per cent.; in those at £500 and over it has been only 4 per cent., the increase in the assessments of the small men under £500 having thus been larger in proportion than in the case of the others. That is precisely what we should expect. The Income-Tax returns show not only the profits of the large merchants and manufacturers, but also those of the retail dealers, and in the small incomes we find greater increase than in the large incomes. Here are some figures which, I think, may be of interest. I have looked at the progress in the number of persons annually assessed under Schedule D, between 1876–7 and 1881–2. In the number of persons assessed with incomes between £200 and £300 the increase is 16 per cent.; between £300 and £400, 13 per cent.; between £400 and under £1,000, 2·6 per cent.; and in the incomes of £1,000 and upwards the increase is little more than a half per cent.

The contrast is striking, and must put us on our guard against drawing inferences from misleading totals which, at first sight, might give an entirely

returns, though the figures are quite out of date, because it is just as important to-day as it was twenty years ago, that the many separate sources from which profits are derived should be carefully distinguished, when inferences are drawn from the rise or fall of Income-Tax returns as a whole.

false impression as to the progress of trade and industry at the present day.

If we pass from the region of satisfactory totals, and glance at some of the industries of the country, the profits on which are separately stated, we find very unsatisfactory items. In the iron-ore industry the profits have fallen from £7,000,000 to £3,000,000, and the profits of the mining industry from £14,000,000 to £7,000,000. These are startling figures, showing under what conditions some of the great trades of this country are being carried on. I rejoice to think that many other departments of activity tell a different tale, and that the industry of this country is made up of such a vast variety of separate enterprises and separate interests, that, notwithstanding some may languish and suffer, the great whole, upon which our prosperity and power depend, is still fairly maintained.

I have thus far spoken of profits, but profits and savings are not identical, and though there have been comparatively smaller profits amongst merchants and manufacturers, the savings of the people seem still to be accumulating. The increase in the Savings Banks is certainly a most satisfactory feature. There appears to be a decided increase in the amounts deposited by the working-classes, both in their Savings Banks and in their Friendly Societies.

What other tests can we apply as indicative of general prosperity? Here is one which it is impossible to pass by—the test of our consuming powers. With regard to these the statistics are entirely satisfactory. We have drunk more tea than in any year before, we have consumed more sugar, we have travelled more miles. We have employed as many servants, we have taken out as many licences to shoot, we have used as many

carriages. In scarcely any departments of expenditure, whether touching the working-classes or the well-to-do classes, is there any sign of falling off of consumption, except indeed in one or, I may say, in two. In the consumption of spirits the decline is notable. We drink now only ten glasses of spirits for every thirteen that we drank in the largest drinking year, which was the year 1875, and we have cut off one glass out of ten even during the last four or five years. Well, also in tobacco there is a decrease, but it is very slight. We have cut off one pipe or one cigar out of every thirty-five, and that is supposed to be due in part to the higher duty. Let me then sum up to the effect, that almost in every direction, except where you have special explanations, such as the greater temperance of the people and the exertions made in that cause, we find a positive increase in the consuming powers of the people.

The evidence as regards pauperism is similar. I do not wish to attach too much importance to the Returns of Pauperism. Administration has been improved, and I believe in many parts of the country pauperism does not always reflect precisely the want of employment; but, at the same time, the statistics are exceedingly interesting and important, and I must not pass them over. Pauperism has fallen during the last fifteen years from 5 per cent. to 3 per cent. of the population. The population of England and Wales has increased in this period from 22,000,000 to 27,000,000, but the number of paupers has fallen from 1,085,000 to 789,000; and what is very important, the *able-bodied* paupers, male and female, have fallen from 194,000 to 98,000. It would not be right to ignore these figures.

Well, then, in what condition is employment? The

volume of trade is satisfactory. I am not thinking of what it is at this precise moment in June, 1885, but, looking back over the last two or three years, certainly the volume has been very great.

Look at the total of British and foreign shipping entered and cleared. We talk about our trade declining, and yet we see that in four years there has been an increase of nearly 5,500,000 tons in the entries of ships, British and foreign, clearing in our ports. Remember, these are not statistics of idle ships. They enter our ports, and leave our ports, carrying cargoes to and fro. If there were less trade, less ships would be employed, instead of more.

What is the evidence as to some particular industries? In the woollen industry there has been a satisfactory volume, and I believe also a more profitable trade. In 1869, in round numbers, there were 300,000,000 pounds weight used up; in 1884, 381,000,000 pounds. And mark this. Last year was not simply a good average year. In 1884 a larger amount of wool was used by us than in any previous year with reference to which we have statistics at all.

As to the cotton industry, in 1874–5 the weekly average of bales of cotton consumed was 59,000; in 1883–4, 70,500, an increase of 19$\frac{1}{3}$ per cent., certainly a most notable growth. Again, the exports of the years 1883 and 1884 of cotton yarn were far larger than in any of the previous years, and in 1884 they were larger than in 1883. The export of thread for sewing, and of cotton piece goods, shows a slight falling off in the last two years against the two previous years, but in both cases the exports of 1884 were larger than in any year previous to 1880[1]. The average of the

[1] In *value* the exports of cotton piece goods have in many years been larger, but the *volume* was never so great before 1880.

quantity of cotton piece goods (entered by the yard) exported annually during the last five years has been 4,515,000,000 yards. The highest quantity in any previous year was 3,815,000,000 yards.

I pass from special industries to the country as a whole: let us glance at the totals of imports and exports. The proportion of these totals per head of the population of the United Kingdom was, in 1873, £21 4*s.* 9*d.*; in 1883, £20 11*s.* 3*d.*, a decrease of 13*s.* 6*d.*, or of nearly 4 per cent. But this decrease is due entirely to price, because the fall of prices in 1883 as compared with 1873 is far more than this decrease of 4 per cent. It is certainly more than 10 per cent. Similarly, if you take the proportion per head of the population of the United Kingdom of the *exports only of British produce* and average them; for instance, if you take the average of the high years between 1871 and 1875, you will find it to be £7 9*s.* 2*d.*; in 1883, £6 14*s.* 8*d.*, that is, a decrease of 14*s.* 6*d.*, or something like 10 per cent. But again, there is no greater decrease, indeed not so great a decrease as there is in prices. I will not labour the point further, but in respect of the volume of trade—and it is that to which I have been specially addressing myself—I say it cannot be called unsatisfactory.

Let me point to another feature in the present situation. The remarkable increase in the number of factories in the cotton trade shows that, at all events, capital is flowing into a trade which is still declared to be extremely bad, and that competition is increasing, while profits are very low. I have read much with regard to joint-stock enterprise, a topic which is playing a considerable part, I believe, in the discussion which you are carrying on with regard to the causes

of the present depression; and I know it is said that capital flows into these joint-stock and co-operative mills—that they borrow extremely cheaply, and are able thus to carry on a very serious and increasing competition. If that be so, I feel pretty sure that it is experience alone, the sagacity of the people engaged in those trades alone, that can put the matter right, but that no attempt to force down any industry, however it may be competing with existing industries or with existing organizations of those industries, will succeed. I should like to add, that supposing a portion of your English competition could be crushed out, it would be for the benefit, not of English manufacturers alone, but of your foreign rivals. No point seems to me more deserving of being considered. Suppose you curtail English production, and, by curtailing it, raise prices, are you not possibly putting yourselves even into a worse position as a nation to compete with manufacturers abroad?

The mention of your foreign rivals suggests a further characteristic of the present depression. This depression is common almost to all the world. It is not confined to the United Kingdom, and when we look for causes, we must not look for them only in those which are special to ourselves. We must not think that by altering this law or that, we shall be able to bring back a prosperity that we may fear to be passing from us. Look at all the other trading countries, you will see that depression is universal. And here is a curious fact. This depression is coincident with cheap capital. I have lived long enough to remember how in times of former depression the inflationists were at work and exclaimed, 'There is not enough capital; the production of the country is suffering, commerce is suffering! change your currency laws;

abolish the Bank Charter Act; issue notes *ad libitum*, in order to encourage commerce and manufactures.' Those gentlemen have their wish now in a certain sense. They have capital at 2 per cent. There seems to be no dearth of capital. Some people think there is too much capital, too much at least flowing into some industries. Observe, then, this remarkable phenomenon of cheap money coincident with depression in trade.

With regard to cheap money, I hope I may say one word, which may not be without its interest. It appears to me it is not only the traders and the manufacturers who are complaining, but that other capitalists find it exceedingly and increasingly difficult to find a good return for their capital. The colonies are borrowing at 4 per cent. and less, whereas they used to be borrowing at 6 per cent. Corporations are borrowing more cheaply than they were ever able to borrow before. The borrowers, steady borrowers, solvent borrowers, have had an extremely good time of it, and what is the meaning of this cheapness of capital? I think it means that the savings of the country have gone on increasing, while there has been more prudence in selecting the securities into which they should be put. Foreign loans used to carry off a large portion of our savings, but the Income-Tax returns show that the profits derived from foreign securities have scarcely increased during the last few years. Savings are being utilized in another way. Never before has there been so keen a desire on the part of the whole community to invest every reserve shilling they may have, in some remunerative manner. There is a competition between men who have a few tens of pounds and a few hundreds of pounds to put them into business, and into business they are put.

Joint-stock enterprise has swept up all these available resources. Like a gigantic system of irrigation it first collects together all the reserved savings of the community and then pours them through innumerable conduit pipes right over the face of the country, making capital accessible in every form at every point. And so complete has been the machinery for collecting the capital together that the great reservoirs have been sufficient, and more than sufficient, to supply all those conduit pipes which are carried into every corner. Do not let us regret this too much. I see before my mind's eye some effects of this system which may not be so patent until they are carefully looked at. One effect is this—there is a greater *diffusion* of capital. Many more of the population are interested in manufacturing enterprises, and, as through Friendly Societies millions of the working-classes have become capitalists in a sense, so through many of these co-operative organizations they have become master manufacturers. You may deplore the competition for the moment, but, depend upon it, there is no more promising element to which we may look for the maintenance of our prosperity in the future than to the working-classes and the capitalists, masters and artisans, feeling that their interests are all bound up together, and that it is only by the union of all that they can carry forward the great enterprises and industries of the nation.

Let me speak of one other characteristic of the present state of trade, which possibly has also contributed in some measure to the appearance, if not to the actual fact of depression—viz. the extent to which England has suffered by losing much of a branch of business, which was transacted here owing to her position as a middleman's centre for various foreign countries.

British middlemen have been pushed aside in many departments of commerce and industry. It is London which has mainly been affected by the emancipation of the foreigner from much tribute for work done for him, with which he now dispenses. Let me tell you how the cotton trade, for instance, used to be conducted between New Orleans and the interior of Germany. The New Orleans man consigned his cotton to a New York house, the New York house consigned it to Liverpool, Liverpool to London, London to Hamburg, and Hamburg to spinners in the interior of Germany. But now the German spinner goes direct to New Orleans, the German agent visits him in his home, and a number of intermediate profits and commissions are swept away. England has lost a great portion, I will not only say of its transit trade, but of that immense department of its business which consisted in mediating between different countries. This loss has had a considerable effect, not only in a direct diminution of profit, but also in affecting the tone and temper of trade. The middlemen and agents in London often contributed largely to the activity and excitement of the markets. In Mincing Lane, when cargoes of sugar were sold, one cargo would change hands four or five times. Then the brokers would all be cheerful; business was brisk and buoyant. There appeared to be great vivacity in trade. I hear that similarly in Manchester, there were firms which gave a certain stimulus and impetus to trade at certain times by gigantic speculative operations. If to-day business is quieter, it is also sounder; and let me ask which is the preferable state—to do business quietly for five years with small profits, or to have a large turnover for four years with large profits, but with a crash at the end which sweeps away nearly all the

profits of the four rich years? I have a shrewd suspicion of what most people prefer, though they would perhaps not admit it. They prefer four merry years and a bad one at the end, rather than five dull years—four years in which they enjoy the briskness of trade, and only one in which trade is bad. But now a succession of years in which comparatively small profits have been made, has created a sense of dullness, of disheartened monotony, and possibly it is only a partial consolation that, if I am rightly informed—I know it is true of a great portion of the country, and I hope and believe it is true of Manchester—trades in which profits have been small have been sound, with less loss incurred by bad debts.

Hitherto I have dealt with some of the characteristics of the present depression in trade. I now proceed to questions of deeper interest—What are the more far-reaching causes of this depression, and what are the prospects as regards the future? It is important to distinguish between causes local and temporary, and those which may have a more lasting and wider effect. One cause I hope we may class as temporary—the bad harvests which agriculturists have unfortunately experienced, and which have followed each other in succession through several years. What do bad harvests mean? Over what area do they extend? The annual value assessed on land under Schedule A—on land alone—and under Schedule B on farming incomes, even now amounts to nearly £100,000,000. Compare the vastness of that industry, for instance, with the iron-ore works, where the profits were assessed at £3,000,000! Any blow that falls upon the agricultural industry must have its effect throughout the whole country. Remember the vast number of

subsidiary trades—implement makers, manure importers, seedsmen, wagon-makers—retail trades which supply the farmers, and you will realize how innumerable interests suffer when harvests fail.

Let me give another instance of what I hope is a temporary difficulty. The statistics of the iron trade are extremely unsatisfactory; but there is no doubt that its fate is due, in great part, to that extraordinary development of railway enterprise in the United States which raised the iron industry here and elsewhere to almost abnormal proportions, with a desperate and terrible reaction afterwards. Let us hope that this has been a temporary cause.

I do not know whether at this stage you would expect me to raise the question of protective tariffs, and to embark on the argument whether they are a temporary or a permanent cause, or whether they are a cause at all. Once embarked on the fair-trade controversy, I do not know when or where one would be likely to stop. With regard to the more permanent causes, they would be alleged to be the demonetization of silver, the appreciation of gold, and over-production. Let me touch the silver question in a very few sentences. It is impossible for me to enter on the discussion either of this topic or of the appreciation of gold in a satisfactory manner, because either would require a whole speech to itself; but there is one point connected with the silver question to which I will allude, the insecurity which the present situation imparts to your trade with the silver-using countries. This insecurity must most seriously affect your dealings with India and with many other of your customers, and I am sorry to think that in this respect there is little hope of improvement till more light is shed on the currency policy of the United States. Indeed,

I fear that the uncertainty in the trade with the silver-using countries will become even more acute. Thus I earnestly trust that this silver question will be steadily kept in view, at all events by those who are responsible for the interests of our Indian Empire. It is a question of the deepest moment. It is impossible for me on this occasion to expatiate upon it, but it is a factor—and a very important factor too—in the condition and prospects of trade.

I come to the question of the appreciation of gold. On this I have spoken fully before, and I am bound to say that I have nothing to take back from what I have said. The case seems to me to lie in a nutshell. We are confronted with an immense diminution in the production of gold. There is a greater strain upon gold through the dethronement of silver in very important countries, and therefore, if prices are at all determined by the relative quantities of gold on the one side, and of commodities on the other, the disturbance of that proportion must have had its effect upon prices. You have the decreased production in gold; you have the increased production of commodities; and you have the fall in prices which economic science tells us those two factors ought to produce. But, unfortunately, no one will ever be able to prove whether the cause has produced the effect or not, or to what extent it has operated. It is clear that the effect has been greatly reduced by the development of the credit system, which has been carried to the utmost limit, and I do not contend for one moment that the fall in prices is exclusively due to the appreciation of gold. But I do maintain that it is a factor in the case, and it is, above all, important from this point of view, that, if there is any force

in this contention, it indicates the likelihood of the standard of prices generally being lower in the future, with the consequence that it would be wise to discard the idea of a return to the old level. It appears to me that if there is one thing that men engaged in business would like to know, or upon which they would like to be able to form an opinion, it is—Are we to accept low prices and cut our cloth accordingly? Is business to be carried on at these low prices, or are we to return to the higher standards which existed ten or fifteen years ago?

The opponents of the contention that gold has appreciated in value urge that the low prices are due to what they call over-production. Now, what is meant by over-production? Does the phrase mean that the world produces more than it produced several years ago? Does it mean that more is produced than can be sold, or does it mean that more is produced than can be sold at a profit? All these are important distinctions. Again, let us distinguish between over-production which is the result of the bounty of nature, of splendid crops, and over-production which is the result of the hand of man, of enterprise purposely applied to certain manufactures. I fancy I see a distinction between over-production from mines and over-production from crops which are grown upon the earth. If the production of sugar appears excessive, other crops will be grown in the place of beet; but in the case of mines you sink your capital, and any stoppage of production causes most disastrous effects to all who are engaged in that particular industry.

But is very large and increasing production, generally, an evil? Those who speak continually of over-

production apply the phrase to tea, to sugar, to cotton, to wool. 'Look at these enormous crops,' they say, 'and look at the low prices. It is these confoundedly large crops which have done the mischief; they have sent prices down. What a misfortune, what a curse!' But I wish to ask, has this over-produced sugar rotted in the docks or passed into the stomachs of the people? I ask as to this over-produced cotton, is it lying unemployed or has it been worked up? For that I look to the position of the stocks of such articles. I know that it has been argued that increased stocks of various articles prove the fact of over-production. I have looked at those same stocks, and draw a different conclusion. Considering the immense increase in production, the relative increase in stocks strikes me as very small. I will not trouble you with many figures. Suffice it to say that, after ten years' imports of raw and refined sugar, amounting to 10,000,000 tons, the stock at the end was only 127,000 tons greater than ten years ago. In cotton the total supply of the world for the ten seasons was 75,000,000 bales; total deliveries for consumption during that time 75,227,000 bales! No argument, I tell you confidently, can be based on the amount of stocks of produce in hand to justify any allegation of continuous over-production. I will not pursue the subject further, but I point out how the increased production has been distinctly advantageous to the community, if disadvantageous to some engaged in trade; clearly, if these quantities had not been produced, some one would have drunk less tea, or used less sugar, or suffered in some other way as compared with the prosperity enjoyed through the bountifulness of the crops. Traders may object to this large production, but we are not justified as citizens in pointing to it as a

curse, unless redundant stocks were rotting in the docks.

But is there not a great defect somewhere? Has the advantage of these low prices accrued to the degree to which we might have expected it to have accrued, to the pocket of the consumer? I think not. While the organization for production has been simplified in many ways, I question whether the organization for distribution has kept pace in the same degree. The consumer has not been enjoying a proportionate advantage compared with the loss to the importer and producer. Some one, as I said before, must have had the profits. I believe that the working-classes have had a greater command of cheaper commodities through the fall in prices, but I doubt whether the fall has been as great as it might have been, owing to defective distribution. I doubt whether in articles of vital importance to the working man, the retail prices follow the downward course of the wholesale prices with anything like the rapidity or completeness which might theoretically be expected. It is impossible for me to do justice to this aspect of the subject now, but it is one of the most important parts of the case. For, consider, if profits are diminished to the producer, what must take place? When profits are diminished to the point that business cannot be profitably carried on, of course wages must fall unless trade is to stop. But side by side with that fall of wages let the consuming, wage-earning classes enjoy to the full the great advantages which the increased production of almost all the commodities of life is offering in every possible direction. In this respect a margin is clearly to be found.

Increased production has certainly contributed to

low prices. That cannot be denied; and now, let me ask, under these low prices, how do you stand as regards competition with the Continent? I have said that while we have depression here, there is depression elsewhere—most serious depression. Still I will not say but what an examination of the present state of things points to the conclusion that a part of the advantages on which the supremacy in trade and manufactures of this country depends, are, to a certain degree, imperilled by some of the changed conditions of the general situation; and, just as I hold that, in the political world, it would be wrong for this country to rely upon its past invulnerability and prestige, and so to lose sight of the present changed situation, so I hold that in the economical world, in the industrial and trading world, it would be wrong to rely simply upon our past prestige, and to persuade ourselves that because we have always been able, under certain conditions, to compete successfully, and without strained efforts, with our continental neighbours, it must, therefore, always be so. Let us look into the conditions which in the past have mainly contributed to the supremacy of this country in the trading world. We had our start in trade, an immense advantage, but which naturally dwindles as other countries progress. Then we had our extremely favourable geographical situation. We had our coal supply; we had the ingenuity of our merchants; we had the intelligence of our working men. We owe much, too, in my opinion, to our greater freedom, to less interference by legislation. Let me add, that notwithstanding the strikes and difficulties with which we have had to contend, on the whole those strikes have been settled with more temper and with less strained relations between employers and their workmen

than in most countries on the Continent. We have had order, we have had peace, we have had our Empire, we have had our foreign dependencies, we have had our Colonies. These are the advantages by which we have for so many years held high the flag of English commerce. Look them in the face and see which we can still command, and which we cannot expect to continue to command—which we ought to continue to command, and can resolve still to command.

In some cases we have no power to retain our advantage. Take our coal supply. I asked myself, How is the supply in foreign countries proceeding? I knew of a considerable increase in coal-mining in Germany. I examined the figures, and what did I find? In 1861 the production of coal in Germany was 18,000,000 tons; in this country it was 83,000,000 tons. Germany has now increased from 18,000,000 tons to 72,000,000 tons, while the production in England has increased to 160,000,000 tons. We have, therefore, about doubled our output of coal, but Germany has quadrupled hers. These are serious figures which it is right to put before the public. Why, indeed, should they be concealed? But they show that we have thus lost something of the supremacy, something of the advantage we owed to coal. We find the consequences, too, in the iron trade. Continental competition abroad is shown by the fact that between 1880 and 1883 the total exports of iron from Germany have increased from 992,000 tons to 1,230,000 tons, or 25 per cent.; and the exports of steel from 62,000 tons to 203,000 tons. Both in coal and iron the Continent has been gaining on us.

I believe you are aware that, as regards your own industry, while you have been largely increasing the

consumption of cotton, that increase has been relatively much larger both on the Continent and in the United States. Supposing you are doing well, other countries have been making more progress. And why should they not? That is a point which the public ought to understand. You can beat the foreigner to a certain extent, but you will not have the same advantages if he increases in intelligence and in his command over coal; and, as complexity of trade decreases, so you will find that it tells against this country. The greater simplification in trade has been to the advantage of foreign countries, because, when trade was carried on on a different system, when things were more complicated, we held the threads much more in our own hands. Now that a much larger direct trade is carried on between nation and nation, and consumer and producer, we have lost a position which told greatly in our favour.

Again, how do we stand as to the advantages resulting from our geographical position? Sea carriage is now so cheap, that we are annihilating distance, and the annihilation of distance seems to me somewhat disadvantageous to this country with its splendid geographical position. People not in business would scarcely believe that a ton of coal can be carried from Cardiff to New York for 7*s.* 6*d.*, and that a ton of coal can be carried back for 5*s.*,—12*s.* 6*d.* for a return journey of a ton of goods between Cardiff and New York! You know, too, that from Manchester, including the railway fare from here to Liverpool, and including the Suez Canal dues, the freight from Manchester to Bombay is not much more than a second-class ticket from London to Manchester. When all nations are brought much nearer together, the superior command over the commerce of the world is, to a

certain extent, lost to the country which knew best how to utilize the advantage of its position. All these are facts which influence cheapness of production and the prices of commodities. They seem to me to have enabled the foreigner to compete on more favourable terms by neutralizing some of our advantages. The foreigners are making distinct progress, and must consequently be watched, but not in a jealous spirit. Why, for instance, should we expect to be able to supply Germany with certain goods? Why should we be able, if the United States have cotton on the spot, to manufacture cotton goods more cheaply than they do? Why should we expect to be always able to undersell foreign nations in their own markets? I trust it may often be in our power, and under some circumstances it will. For instance, I believe we shall compete more successfully under our system of free trade than they under their system of protection. They may protect their own markets, and they do protect them against our goods, but they make it more difficult for themselves to compete with us in distant markets, with our cheaper production and the progress that we have made under the stimulus of invention and enterprise which flourish best under free trade.

I have one point still to deal with, and perhaps it is the most important point of all. I want to know, if there is some falling off in trade—if there is no aggregate expansion—where, at least, if we dissect the totals, is there partial expansion? In what direction is there most hope? When I look into the figures I find the following instructive result. While our trade with the great manufacturing countries of Europe has progressed very little, in proportion as we pass from the centre to the extremities we find a greater growth. We have increased our exports

least to the great European nations, but we have increased them very largely to the *colonies* of European nations. We have increased them more to the smaller than to the great nations of Europe. We have increased them very considerably indeed to the small transatlantic Republics; and lastly, if we take our export trade with foreign nations as a whole, and contrast it with that to our own Colonies and dependencies as a whole, we find that the latter has increased in an infinitely greater proportion than the former. Taking the value of the *exports of yarns and British cotton goods* from the United Kingdom to British possessions from 1871 to 1877 and from 1878 to 1884, the average per annum during the first seven years was £24,750,000, and in the second £28,300,000, an increase of 14 per cent. The exports to foreign countries during the same periods were, in the first, £48,550,000, and in the second £44,500,000, a decrease of £4,000,000, or 8·4 per cent.; an increase of 14 per cent. to our own possessions, and a decrease of $8\frac{1}{2}$ per cent. to the Continent! These are surely striking and significant figures, but we must bear in mind that they are not absolutely conclusive, because the question of values and of quantities is involved. And do not misunderstand me as to what I am going to say: I am not saying that you should neglect your trade with foreign countries. I do not wish to set your trade with one part of the world against your trade with another. Stick to both, if you can. Endeavour to compete with foreign countries thoroughly and successfully, but keep your eye, at all events, steadily upon those countries where you see there has been most increase.

Now, the expansion of our exports during the last fifteen years to the large European countries, between

1869 and 1883, has been from £107,000,000 to £116,000,000, or $8\frac{1}{2}$ per cent. In the case of the small European countries it has been from £11,000,000 to £18,000,000, or nearly 60 per cent.! I ought to mention that I put Belgium and Holland with the large countries, which are Austria, France, Germany, Russia, Italy, and Turkey, because Belgium and Holland are transit countries in whose case you cannot separate their direct trade with us from that which simply passes through them to or from their larger neighbours. By small European countries I mean Spain, Portugal, Norway, Sweden, Roumania, Denmark, and Greece. To Mexico and to the Central and South American Republics we exported £7,500,000 in 1883, against £3,450,000 in 1867; to the West Coast of Africa £1,800,000, against £1,000,000; and to unenumerated countries, which must clearly mean small countries, £2,450,000, against £700,000 [1].

These statistics seem to me to show that it is mainly in the smaller markets where we have been able to be successful, and, to a great extent also, in distant markets. The greater countries have competed successfully with us at home, but we have still generally beaten them beyond the seas. But, now, what is the case as regards our comparative trade with foreign countries and with our own colonies? We have increased our exports to foreign countries during fifteen years from £185,000,000 to £215,000,000, that is about

[1] The time at my disposal did not allow me to deal as I could have wished with the increase and decrease of our exports to various countries, and I was compelled to refrain from alluding to several countries where exceptional circumstances prevailed, as, for instance, in Egypt, and also to others, such as the United States, China, and Brazil, which could not be included in any of the groups to which I alluded in the text.

£30,000,000; the exports to British possessions from £52,000,000 to £90,000,000, an increase of £40,000,000. In the one case the growth has been about 74 per cent.; in the other 16 per cent. The increase in Australia has been from £14,000,000 to £26,800,000, or an increase of 86 per cent.; from the Canadian Dominions from £5,900,000 to £10,100,000, or about 70 per cent.; from the Cape from £1,600,000 to £5,000,000, or about 200 per cent. It is perfectly true that these are exports only, and that the case of our imports is not so striking; but looking to these markets for British and Irish products—looking to the expansion in these markets, and mainly in those in our own Colonies where the population is growing rapidly—looking to the picture of industry and commerce which is spread out before us now, surely our chief hope lies in the prospect that the teeming millions of the old country may find customers in the teeming and increasing millions of Greater Britain beyond the seas. Sorry, then, should I be to be a statesman who would in any degree attempt to minimize the value of our colonial possessions or of our foreign dependencies. But this is not only a question for statesmen and politicians, it is a question for the working-classes; it is a question for every trader, for every manufacturer, for every merchant. It is there in our Colonies and dependencies that we may see the greatest hopes; there where populations are increasing; there where we will trust that we shall still maintain our supremacy.

Time would not permit me further to discuss our prospects of retaining or losing the other advantages which we have hitherto enjoyed. We may lose some of the pre-eminence which our geographical position

has given us. Our cheap capital is being rivalled by cheap capital on the Continent. The intelligence of our working-classes is being equalled—I trust it will not be surpassed—by the intelligence of the working-classes on the Continent; but we must stand by those advantages which we have, and which we cannot have taken from us. What have we not owed to order and peace at home, and power and influence abroad! Sometimes I hear men speak as if there were less sympathy felt for the British trader who is carrying British commerce into distant regions than was felt in former days. British trade sometimes means increased responsibilities to political men. I am not sure whether the old phrase of the *Civis Romanus* is not sometimes translated now at the Foreign Office into 'Troublesome trader.' That may or may not be, but it is the troublesome traders who in past times have extended the limits of the commerce of the country. Let us not be disheartened by the increasing difficulties of the situation, but look facts fully in the face. Let our working-classes, with their great industry and diligence, and that sobriety of judgment which you see distinguishes even their Trades Union Councils, as compared with the meetings of any operatives abroad, let them realize that before they listen to any Socialist ideas with regard to sharing of profits, they must be confident that there are profits to share. It may be that at this moment, through the greater command of the necessaries of life, the working-class, with their rate of wages still so high, is comparatively better able to bear the burden of the existing depression than the manufacturers, who are scarcely making any profits at all. Be that as it may, with sobriety of judgment and a spirit of unity at home, I trust we shall continue to

maintain that vast dominion abroad which, I firmly believe, has added to the power of the nation to support its population in comfort, and to preserve that well-being upon which the future of our Empire depends.

THE INCREASE OF MODERATE INCOMES

Introductory Note

In the preceding address on 'The Condition and Prospects of Trade,' delivered in 1885, the reader may remember how I drew the conclusion from the Income Tax returns and other tests that the percentage of growth in the numbers of Income Tax-payers at the lower levels of assessment—'middle-class incomes' as I called them—had been rising more rapidly than in the case of the rich; for instance, that the percentage of increase in the £500-a-year-men was much larger than the percentage of increase in the £5,000-a-year-men, and so right through the scale. Such a development, I pointed out, seemed to have important bearings in every direction, and, if it could be substantiated, it established, in my opinion, a most noteworthy economic fact.

This preliminary result of my statistical studies evoked my lively interest, and I determined to follow up the inquiry of which I had so far only touched the fringe.

Accordingly, in 1887, when I was Chancellor of the Exchequer and had many opportunities for statistical research at my command, I made as exhaustive an examination of the subject as lay in my power. In my first Budget speech I dealt with the question briefly, and, in October of the same year, as President

of the Statistical Society, I placed my thesis before an audience of experts. I was no doubt partly moved to take the matter up from the degree to which experience had shown me that entirely incorrect notions were conveyed by the totals of the Income Tax returns. An almost ineradicable impression continually prevailed—it flourishes apparently to-day with no less vigour than twenty years ago, and attempts to check it are equally fruitless—that the millions on millions of income which the figures disclose, in the main represent *riches*: that the congratulations annually expressed at the increased yield mean simply that wealth is accumulating: that the rich are becoming richer, and that the boasted growth of the revenue from Income Tax is compatible with a decline of national prosperity in a truer sense. This impression ignores what the great bulk of Income-Tax-payers themselves certainly do not forget, that the tax is a tax not on property but on *income*, and that vast sums are poured into the Exchequer by the tax on 'moderate incomes,' incomes not derived from interest on accumulations, not even from the employment of fructifying capital, but from personal exertion, from labour—as truly labour as the toil of working men,—from the exhausting of vital forces in the struggle for life. And even when the profits or income on which the tax is demanded are derived from trade, we must not picture to ourselves simply the wealthy manufacturer, the tranquil banker. The immense distributive class, the middlemen, the small tradesmen, must never be forgotten as figuring in the aggregate for an immense sum in the total yield of the tax. When changes are made in the rate of the tax, when classes have to be conciliated by abatements, or to be called upon to show patriotic acquiescence in

unavoidable extra pence, then their existence and their vast financial as well as social and economic importance come to the front; but their position as contributors, the part they play in assisting national finance, their steadying influence when crises in the higher departments of commerce and banking threaten to lessen what the Chancellor of the Exchequer hopes to extract from the tills of the great, are too often overlooked when politicians or amateur economists or pamphleteers take their superficial surveys of our economic condition. It has happened that in periods presenting all the features of a considerable depression in trade, the contributions from the category of 'moderate incomes' have shown no decline. As will appear presently, the system under which the Income Tax is collected, renders it impossible to draw precise conclusions, but as careful an analysis of them as their nature admits is indispensable to the most elementary arguments to be derived from the tax as a whole. The modest shop must be kept in view as well as the palatial bank, the regular professional man as well as the spasmodic speculator.

In my Budget speech of 1887 I strongly emphasized this necessity for studying the *distribution* of the resources taxed, as also the *distributive* effects and extraordinary development of the joint-stock company system. This feature, as the readers of the preceding pages may have noted, had pressed itself on my attention in my several surveys of the economic conditions of the country, as one of very special significance. It has operated in the long run in moderating the accumulations of the few, and in increasing the share of the many in the profits of the nation's business.

What I had only briefly touched in my Budget

speech I elaborated in an address to the Statistical Society. This address was necessarily *very* statistical, and I can conceive that some students of economics might prefer to be spared a large proportion of the figures, and to be informed of the results on my authority without troubling themselves too much about the processes by which they are reached. Readers such as these may content themselves with skimming very rapidly over those parts of the address which represent the evidence on which the conclusions are founded. But the conclusions if correct are, in my humble opinion, not undeserving of attention, not only at the hands of theoretical statisticians but of social inquirers and financial students —of financial students as being intimately connected with the basis of taxation, and of social inquirers because any light shed on the distribution and growth of wealth bears very closely on many of the questions in which they are most concerned. I can only wish that the light were clearer and stronger. I fear sometimes it is rather wrapt in mist.

Eighteen years have passed since my investigations of 1887, and I have asked myself in this case, as I have done in others with which I have been dealing in this volume, whether the same economic forces which I seemed to have discerned in the earlier period, are still at work—whether the same tendencies are still in the course of development and would be visible on the application of similar tests—or whether, on the other hand, in the progress of time and under different circumstances important changes might be discovered to have taken place. Accordingly I have endeavoured to bring the figures I used in 1887 up to date, and have examined the attractive problem as to whether

the numbers of 'middle-class incomes' still continue to increase in a greater ratio than those of the higher grades. The result of this inquiry, and, generally speaking, the comparison of the later period with the former in some economic respects, can most conveniently be shown *after* the facts adduced in the earlier years, and the method of calculations then followed, have been gathered from the following address. I have accordingly added a statement of the results of my present inquiry, so far as they seemed to be interesting, in the shape of a separate supplemental study.

THE INCREASE OF MODERATE INCOMES

INAUGURAL PRESIDENTIAL ADDRESS TO THE STATISTICAL SOCIETY. DELIVERED DECEMBER 6, 1887

GENTLEMEN,—I must preface the observations which I am about to place before you by a sincere apology. My official duties, and the pressure of other work, have left me scant leisure to prepare an address worthy of the occasion and of those whom I meet in this hall to-night. There is no study which requires more continuous and undisturbed attention than the study of complicated statistical problems. There is no field of knowledge on which hasty excursions are so likely to lead into bogs where one may stick fast, or into tangled jungles from which one will find no escape. No man feels more deeply than myself how important it is that figures should be put forward only after profound inquiry, and with the minutest care as to their arrangement and disposition. The science of statistics, of which I see so many able professors here to-night, is an exact science. The facts with which it deals only degenerate into misleading confusion when carelessly or too astutely handled. The expression, derogatory to statisticians, that 'figures will prove anything,' as every one of you knows better than I do, simply means that figures, which never tell untruths, may be so handled as to present untruths. Figures themselves never lie, but every one must admit that

no sound and accurate material can be so easily handled for the special purposes of the compiler as statistics.

I had at one time thought of presenting to your notice this evening some of the canons and rules by which statistical statements might be dissected and examined—a kind of guide to the detection of statistical error. I can fancy that an interesting address might be delivered on statistical fallacies, illustrated by copious examples from contemporary politicians and social philosophers. Given a great number of figures partially unknown, given unlimited power and discretion of selection, and given an enthusiast determined to prove his case, and I will not answer for the consequences. But we are all statisticians here to-night, and I am not sure whether, as President of the Statistical Society, I should not by such a course have trodden on the toes of many of the professors of the craft. I will therefore confine myself to a single illustration. The statistician, or more properly speaking the administrator of statistics, is like a showman who is exhibiting certain figures. According as he throws light and shade upon the pictures which he exhibits, he can produce true or false impressions. Whole rows of figures he may throw into impenetrable shade, while others are at the same time brought into excessive prominence, and thus, to the eye of the spectator, much may be rendered invisible, and much may be distorted by exaggerated lights which turn facts into caricatures.

But I will leave this topic, and simply add, with reference to my own position, that your present President is not a producer or manufacturer of statistics; he is in most instances simply a consumer. Or, if you prefer it, I will not speak of myself as

a consumer on this occasion, but rather as a middleman between consumer and producer. And, maybe, it is as well that the President in his annual address, instead of directing his observations exclusively to statisticians, should play the part of such a middleman, and serve as a medium between statisticians and the general public.

Having abandoned the idea of examining the canons of statistical criticism, I am about to engage in a more dangerous task, namely, to enunciate a statistical thesis myself.

I propose to speak on the increase in this country during recent years of the number of moderate fortunes and of small investors, coupled with symptoms of a decrease in the tendency to the accumulation of large fortunes in a few hands. I wish to point out the growing importance in our economic and social system of the smaller middle class. I will not be tempted by the significance of that class into any digressions concerning the political aspects of the case; but I think I may say, without giving offence to any party, that it must be to the advantage of every State that what I may call the great central body of the community should be reinforced in numbers, and I propose by your leave to examine to-night to what extent that reinforcement is taking place in our own country at the present time.

The subject of this address is one on which I have already dwelt, both in a speech before the Manchester Chamber of Commerce two years ago, and in my Budget speech this year: but I am anxious to treat it somewhat more fully to-day. What I am about to say may have little novelty for experts, but it may not be without its use if it serves to bring home to the public some important considerations with which experts are already to a great extent familiar.

Since I originally put forward my theory in June, 1885, my general drift has been confirmed by a high authority. On p. 16 of the final Report of the Commission appointed to inquire into the Depression of Trade—a body whose conclusions, I may parenthetically remark, seem to me to have been unduly neglected because they contain nothing sensational—a table will be found, drawn from the returns under Schedule D of the Income Tax, on which the Commission base the following statement: 'From this table it would appear that the number of persons with incomes of less than £2,000 a year has increased at a more rapid rate than the population (which in the period in question increased about 10 per cent.), while the number of persons with incomes above £2,000 has increased at a less rapid rate, and the number with incomes above £5,000 has actually diminished; and further, that the lower the income, the more rapid the rate of increase. We think, therefore, that whether the aggregate amount of profits is increasing or not, there is distinct evidence that profits are becoming more widely distributed among the classes engaged in trade and industry; and that while the larger capitalists may be receiving a lower return than that to which they have been accustomed, the number of those who are making a profit, though possibly a small one, has largely increased.'

With regard to the table on which these remarks are based, several qualifying considerations must of course be taken into account. The figures under Schedule D of the Income Tax show the incomes of certain tax-paying entities, but those tax-paying entities do not always correspond to actual individuals. Under the head of 'Trades and Professions' in Schedule D, men are arranged in certain classes according to their

incomes; but those are only the incomes which they declare under that head, and they may at the same time be deriving other incomes which fall, and are declared under, other schedules. For instance, they may be receivers of dividends under Schedule C, or they may be landed proprietors under Schedule A, or they may be shareholders in any of the companies which are separately assessed under Schedule D itself. Therefore all the allegations which are made upon the strength of the returns under this head of 'Trades and Professions' require to be qualified, and it must be remembered that the incomes of small amounts under Schedule D may often be lifted into a higher grade by additional resources appearing under other schedules.

But again, there is a consideration on the other side. Under Schedule D the returns made are in many cases those of firms and not those of individuals; so that while in some cases the figures under Schedule D may not indicate the full amount of the incomes of the persons assessed, in other cases those figures are far larger than such incomes, because they represent the profits of firms which are returned in the aggregate, and not separately for the several partners.

I do not wish therefore to rely too exclusively upon the evidence of Schedule D. But the Commission considered it to be valuable evidence, and I consider that it is very valuable if it can be corroborated from other sources. I propose to point to such corroborating evidence. I have looked for other tests of the proposition which the Royal Commission laid down. I have looked for them in the direction of expenditure, and in the direction of investment. I shall presently refer to the result of these investigations.

But before passing to these tests, let me submit the latest lessons which are to be derived from the

Income Tax itself. I have here a table[1] which gives the number of Income Tax assessments, under Schedule D, of individuals and private firms. It shows that in the year 1877[2] there were 317,839 assessments of between £150 and £1,000, and, in 1886, 379,064, an increase of 19·26 per cent. On the other hand, of incomes of £1,000 and upwards there were assessed, in 1877, 22,848, and in 1886, 22,298, a decrease of 2·4 per cent. The contrast is remarkable. These figures distinctly confirm my position that a higher proportional rate of increase in the aggregate wealth of the community is to be found in the middle classes rather than in the highest stratum of wealth.

To go more into particulars, a second table[3] shows more in detail how wealth is distributed between the different classes of Income Tax-payers under Schedule D. In incomes between £150 and £500, the increase per cent. between the years 1877 and 1886 was 21·4; in those between £500 and £1,000, there was no increase at all, the numbers in 1877 and in 1886 being almost identical. When we come to incomes between £1,000 and £5,000, there is a slight increase of 2·4; but in those over £5,000, there is a *decrease* of 2·3. It results from these figures that during ordinary times, and during times of depression, times such as those which we have recently gone through, a satisfactory and steady increase in the number of incomes below £1,000 may nevertheless take place.

I must recall what I indicated before, that these assessments of 'Trades and Professions' under Schedule D do not by any means represent the total number of

[1] Vide Appendix I, Table A, p. 264.

[2] In this address 'year' stands for 'financial year.' 'The year 1887' means the year from April 1, 1886, to March 31, 1887.

[3] Vide Appendix I, Table B, p. 264.

existing incomes of any particular amount, but only those which can be more or less counted. These figures do not include the great number of incomes which go to make up the totals of Schedules A and C. They do not even include all the incomes assessed under Schedule D. There have to be added in that same schedule the incomes of the shareholders of companies whose profits are assessed in the lump. I must further call attention to Schedule E. This schedule is not, as has sometimes been erroneously thought, confined to the salaries of officials—public servants. The number of officials is rather less than half of the total number of persons assessed under Schedule E: the remainder consist of employés of public companies, of private firms, or individuals. Now in the last ten years which I am passing under review, the assessments under Schedule E have increased from 78,224 to 115,964, so that there again you have a large proportion of persons added to the Income Tax-paying class, of whom very few can be described as rich.

As to the number of persons assessed under Schedule E who may be considered as wealthy employés, and of those, on the other hand, who belong distinctly to the middle class—to the class enjoying smaller incomes—I found on investigation that a very large proportion of the total have a smaller income than £400 a year. The figures for 1886 are these: under £400 a year, 104,108; at £400 and over, 11,856. So that Schedule E again represents a large class of persons with moderate incomes, a class who are in receipt of no more than £400 a year from their regular employment. In order to get some conception of the extent of the middle class with small incomes, we have to add the great bulk of these assessments to the assessments of less than £500 a year under Schedule D.

I was anxious to test the growth of these small middle-class incomes in another way, namely, through the Probate Duty; but owing to the changes in the law I have not been able to procure tables going any distance back, nor, if they did go back, could we expect to find as yet the result upon them of the increase of small fortunes. This is a recent movement, and the recruits to whom I have referred have not yet had time either to accumulate money or to die.

But still the figures of the Probate Duty offer some interest. Let me turn aside for a moment from the general line of my argument, to what appears to me to be a real statistical curiosity, namely, the extraordinary regularity in the number of estates of each grade falling in each year. The aggregate figures of the Probate Duty for the years 1885, 1886, and 1887, are as follows:—

In 1885	£3,793,000.
1886	£3,900,000.
1887	£3,834,000.

What a striking regularity of yield, considering the changes and chances of this mortal life! It is generally thought that it is the large estates on which the revenue may rely, but the fact is that here, as in many other parts of our revenue system, we rely not so much upon the extremely rich as upon the general distribution of wealth. Of the total number of estates in 1885, for instance, which amounted to 59,000, there were 45,950 under £1,000, being 77·86 per cent. of the total, and 57,887 under £20,000, being 98·08 per cent.

And here is what I call the statistical curiosity. I have caused a table to be drawn up showing the number of estates at different limits of value proved in the years 1885–1887. The following are the interesting results:—

	1885	1887
Estates not exceeding £1,000 . .	45,950	46,903
„ between £1,000 and £5,000 .	8,782	9,094
„ „ £5,000 and £10,000 .	1,938	2,032
„ „ £10,000 and £20,000 .	1,217	1,240

It is amazing that on a total of 1,217 estates between £10,000 and £20,000 there should only have been a difference of 23. Or continuing:

	1885	1887
Estates between £20,000 and £50,000 .	742	812
„ „ £50,000 and £100,000 .	246	255

And finally:

Estates between £100,000 and £150,000 .	61	64
„ „ £150,000 and £200,000 .	32	33
„ „ £200,000 and £250,000 .	16	17

It appears a most remarkable statistical phenomenon, that men should choose to present to the Exchequer, with such extraordinary regularity, about the same number of great windfalls in every succeeding year. One would have thought that if there was anything in the world that was variable, it would be the number of deaths of men of a certain degree of fortune in any particular year; but nature appears to be determined that the Exchequer shall not be defrauded of its full share of large estates in any single year. I have often marvelled at the exactness with which the able men who frame our estimates are in the habit of forecasting the revenue, but I did not know till I made the investigation, to what extent they were assisted by the steady average of mortality in every grade of fortune.

I turn from the analysis of taxation to tests furnished by investments and expenditure. The number of

small investors has materially increased. I have no doubt that the wider distribution of wealth is largely due to the extension of limited liability. Formerly, great businesses gave profits to a small number of individuals, whose fortunes accumulated; but now, when so many of these great businesses are turned into limited companies, a much larger proportion of the community is introduced to a share in the profits of industry and trade. The goodwill of those concerns passes out of the hands of the former proprietors, who receive the price paid for them by the new shareholders; but in the future the profits will accrue not to half a dozen or a score of men, but to hundreds or even thousands. In every department of business we see this tendency. We find an ever-increasing portion of the community becoming practically traders, and sharing in the profits of business; and the effect of this change is a greater diffusion of wealth.

The following figures are probably familiar to a good many experts, but they are nevertheless so striking that they will bear repetition. The total paid-up capital of all companies registered in April, 1877, was £307,000,000; in April, 1887, the corresponding figure was £591,500,000, an increase in ten years of 92 per cent. These are gigantic figures, and show the enormous growth of the system of limited liability; but the question naturally arises, to what extent the number of shareholders interested in this aggregate capital has increased, whether in proportion, or even more. I commend this point to the attention of statisticians. It would be interesting to learn what are the exact facts as to the total present number of shareholders as compared with the number some ten or fifteen years ago. Meanwhile, I have examined the figures of twelve companies, taken entirely at random—

an insurance company, a bank, a waterworks company, an industrial company, and so forth—and I have compared their capital and the number of shareholders ten years ago, with the capital and the number of shareholders at present. Here is the result: The total paid-up capital of the twelve companies in 1876 was £5,171,649. By 1886 it had become £6,501,582, an increase of 25 per cent. But the shareholders in them had increased during the same ten years from 11,667 to 20,083, an increase of 72 per cent. I need not dwell upon the lesson which those statistics, if they should be shown by further examination to be fair samples, are calculated to teach. Year by year, it would seem, a larger number of persons are becoming shareholders in companies, and thus participating in the wealth which arises from the vast industrial and commercial activity of the country, but participating in a moderate degree. You must add this increase to that which we have already discovered in the assessments of individuals and private firms under Schedule D, in order to form a just estimate of the extent of the wider diffusion of the profits of trade.

But I have not yet exhausted all the tests which I wish to apply to my thesis. There is one form of investment or expenditure (for I hardly know in which category to place it) which ought to throw considerable light upon middle-class fortunes. I mean life insurance. We all know that there is an increase in the business of insurance companies. The annual premiums have increased between 1880 and 1885 from £11,685,000 to £12,846,000. But the question which concerns us now is, whether that increase of business has been caused by persons insuring their lives for larger sums, or from an accession of numbers, beyond what may be due to the growth of population, insuring

their lives for smaller sums. Is there a new class of people insuring for smaller sums? The number of policies supplies the answer. At the valuation before last it was 779,000, and at the last valuation 901,000. The amount insured has increased from £383,000,000 to £420,000,000. But here is the interesting point: While the number of insurers has so greatly increased, the average amount per policy has been reduced from £492 to £466. Do we not find additional evidence of my proposition as to the growing distribution of wealth in this accession to the body of insurers of a large number of persons insuring themselves on the scale of very moderate fortunes?

Here is another test, a test not of investment but of expenditure: the number of dwelling-houses of different degrees of value, as given in the returns made by the Inland Revenue of tenements assessed to Inhabited-house Duty. In this case it will be instructive to make the comparison in two separate periods, the period from 1875 to 1880, and the period from 1880 to 1886. A glance at the two tables in the Appendix will at once show the difference in the character of the two periods. During the former we still find the effects of the years of prosperity between 1870 and 1875, and in the latter we find the full result of the depression which subsequently set in. Turning to the tables we find an increase in the number of dwelling-houses (not shops) of £20 and upwards during both the two periods. In the earlier period there was a considerable and, roughly speaking, a fairly equal increase in the number of houses of every grade. But in the second period, that between 1880 and 1886, this tendency is completely altered. An increase still appears, though not to such an extent as formerly; but while the check to prosperity is clearly seen in

houses of the higher grades, it has not affected in anything like the same degree the less valuable dwellings. Thus, in houses of £20 to £50 annual value, there is an increase of 19 per cent.; but at this point there is a check. Between £50 and £60 the increase is only 16 per cent.; between £60 and £80, 15 per cent.; between £80 and £100, 12 per cent.; in the steps between £100 and £500 the increase varies between 11 and 12 per cent. So far the increase is smaller with each ascending step in the scale of wealth. Between £500 and £1,000 the increase actually falls to 2 per cent.; while above £1,000 there is a decrease of 8 per cent. It results that, as far as we can judge from the returns of the Inhabited-house Duty, the smaller incomes have been growing at a considerably more rapid rate than the larger; and, especially, that this growth has been less retarded by bad times. The number of houses of the lower middle class in particular has continued to increase with remarkable steadiness, and, all through, the degree of the increase has been in proportion to the smaller value of the house;—in other words, according to these tables, the smaller houses, inhabited by the class whom I have described as gradually acquiring a greater share in the general wealth, have steadily multiplied; whereas, in a richer stratum of society, where the growth of wealth seems to me to have been checked, we find a much smaller increase in the number of highly-rented houses; indeed, at the highest point there is a positive decrease. It may be said, of course, that this result is due to a fall in the rents of the larger houses; but why has that rent fallen? Because there are a smaller number of competitors for that class of house, which is simply to express the same fact in a different form. But as regards humbler dwellings,

I would urge that here again we have fresh evidence of greater power of expenditure, which I trust means also a greater enjoyment of the comforts of life and a greater share in the general wealth amongst the bulk of the middle classes.

The lessons which are taught by the other branch of the House Duty, namely that which taxes shops, are less striking, but possibly somewhat interesting in view of the development of limited liability and of the co-operative system. In the case of shops, the tendency is exactly the opposite to what we have found in dwelling-houses. While in the case of the latter there is a smaller increase in the valuable houses and a larger increase in the less valuable, in the case of shops the less valuable hardly increase at all, while it is in the number of the larger shops that the most marked development has taken place. In the period between 1880 and 1886 there is an increase of only 3 per cent. in shops of the value of £20 to £30. There is an increase of 8 per cent. in shops of from £30 to £40; of about 11 per cent. from £40 to £60; and so it goes on in an ascending scale. Even in the highest grade, when we come to shops assessed at £1,000 and upwards, we have an increase of 9 per cent., as compared with an increase of 3 per cent. in those from £20 to £30. Thus it appears that the large shops—shops conducted upon the basis of a large capital, and frequently on the principle of limited liability—are to a certain extent ousting their smaller competitors. In shop-keeping, as in other classes of business, we appear to find an extraordinary development of the limited-liability system, with a tendency to an increase in the amount of capital employed, together with the distribution of that capital among a larger number of people. Under the old

system, there were not such large amounts of capital, but, on the other hand, such capital as there was, was held in fewer hands.

To sum up this part of the case, I submit that it has been shown that those schedules of the Income Tax, which do to a certain extent, though not entirely, serve the purposes of a census, point unmistakably to a growth in the number of moderate incomes, side by side with a tendency in the number of large incomes to remain stationary, and even to decrease. Recognizing that this evidence, though most important so far as it goes, is not conclusive, I have tested it by examining the change in the number of investors resulting from the growth of joint-stock companies; I have tested it by an analysis of the returns of the insurance companies; I have tested it by the statistics of dwelling-houses at various degrees of assessment (a most crucial test, since house room is the chief item in almost every man's expenditure, and that which in the majority of cases most accurately indicates the degree of his resources). And in all these inquiries I have found much to confirm and nothing to invalidate the thesis—That the feature of the last decade, and especially of the period of depression, is the tendency of wealth among the Income Tax-paying classes to distribute itself in smaller amounts over a larger number of persons.

And here I might have left the matter, but the interest of the investigation has led me a step further. I have asked myself whether the greater diffusion of wealth, of which we have seen evidence among the Income Tax-payers, affects the classes below the Income Tax line; that is, roughly speaking, below £150 a year. I think there is proof that it does so affect at least

the upper stratum of this portion of the community. Here, again, I would have wished to apply tests similar to those which I have employed in dealing with the classes above them.

Unfortunately, however, these tests cannot in this case be brought into play in an equally thorough manner; but still there are some facts which are well worthy of attention, and which point in the direction indicated. For instance, there is the number of dwelling-houses of less than £20 annual value. I have dealt so far only with houses of above £20. I now turn to those below that line. Of houses valued at less than £10 there were, in 1875, 3,000,370; and in 1886, 3,174,800, an increase of only 5·8 per cent. In houses between £10 and £15, on the other hand, the increase was enormous, namely 58 per cent.; and in houses between £15 and £20 it was 56 per cent. We thus find entirely opposite tendencies in the houses below £20 and in those above £20. In the latter the increase was largest at the lowest point, and smallest at the highest; in the former the increase is much larger at the higher point, and smaller or almost non-existent at the lower. We see, therefore, that a greatly increased number of the working-classes must now be living in houses valued between £10 and £15, or between £15 and £20; while those living in houses under £10 are, absolutely, scarcely more, and, relatively, fewer, than they were ten years ago. Of course one most important modifying consideration must be borne in mind in connexion with this change. It may be due to a rise in rents; it may be due to the fact that the working-class are compelled to pay more than they did before for no better accommodation. I have little doubt that in most cases accommodation is better;

but whatever theory may be held on this point, there stands the fact that at least the higher class of artisans are paying higher rents than they used to pay ten years ago, and that their wages enable them to pay them.

Now if we saw that side by side with the increased rent which the working men pay,—I trust for improved houses,—they were obliged to diminish their investments, or their expenditure in other directions, then different conclusions would have to be drawn from this fact of the increase in the number of houses valued between £10 and £20. But when we look to the statistics of what I may call the investments of the working-classes, to see whether, in consequence of having to pay more house-rent, these investments have fallen off, we see, I rejoice to say, that this has not been the case. The statistics with regard to Savings Banks, to co-operative societies, to building societies, are well known, and I would not cite them once more were it not for their significance in relation to the large increase in the number of houses between £10 and £20 just explained. Side by side with that increase the working-classes have been able to make enormous additions to their investments, certainly one of the most satisfactory signs of the day. I look upon it that the working-classes through the Savings Banks and through their Friendly Societies are beginning to appear in the character of capitalists, just as by means of building societies they are becoming land and house owners, and by means of co-operative societies traders and men of business. No doubt it is said that the returns of the Savings Banks are no complete evidence of the welfare of the working-class, because the lower middle class contribute largely to these deposits. But

whoever may be the depositors in them, they are at all events not the wealthy. So in whatever proportion the working-class and the class immediately above them may contribute to these deposits, they are at any rate evidence of increased prosperity and increased power of saving and investment in the middle, as opposed to the upper strata of society. Besides, the number of depositors shows that the savings must be derived for the greater part from the artisan and the labouring population. And so regarded, they are a most satisfactory symptom. The amounts invested in the Savings Banks have this year for the first time topped £100,000,000. Looking at their progress for the past decade, we find that both in the total amount deposited and in the amount per head of population they show a remarkable advance. In 1875 the total amount of deposits was £67,600,000, or 40*s.* 9*d.* per head of population; and in 1886 it was £97,700,000, or 52*s.* 9*d.* per head. But the Savings Banks are not the only investments of the working-class: there are also the important industrial and provident societies; and here again we find a most satisfactory increase. The number of members, in round numbers, increased from 480,000 in 1875 to 810,000 in 1885. The share and loan capital grew from £5,600,000 to £10,700,000. The amount of capital per member was £11 16*s.* in 1875, and £13 6*s.* in 1885. It is evident, therefore, that in these societies, which are essentially working-class enterprises, a constant increase of investment has been going on. Then again the building societies tell the same tale. Their 'liabilities,' which include both share capital and loans (but loans which in many cases are taken from their own members), have increased from £20,900,000 to £53,100,000.

I should be glad if I had been able to add to the

above statistics figures, as regards Friendly Societies, which form an important element in the savings made by a large section of the community. There is, however, one table which I am able to submit —not a very satisfactory table—showing the progress of the industrial companies, which are the insurance companies of the poor. This table shows that the annual premiums have increased from £1,942,000 in 1880, to £3,550,000 in 1885, the number of policies from 5,440,000 to 9,132,000, and the amount insured from £49,000,000 to £83,000,000. I do not quote these figures as any evidence on the point with which I have just been dealing, or as greatly affecting the position of what I have called the aristocracy of the working-classes. The great number of the policies—9,000,000—and the small proportion which the life and annuity funds—£4,392,000—bear to this high figure, lead to the conclusion that most of these policies are of very small amount. Neither do I wish to commit myself to any approbation of these companies as a form of investment. Still, if they prove nothing else, the figures point at least to an effort, and an increasing effort, in the direction of thrift on the part of even the poorest section of the community, and as such may be included with other encouraging facts which I have been able to record.

I do not know whether the statistics which I have brought before you will to any extent have created the same impression in your minds as they have made on mine. To me it seems that, while some people are crying out for the artificial reconstruction of society on a Socialistic basis, a sort of silent Socialism is actually in progress. There is a silent

movement towards the further distribution of wealth over a larger area, which, from whatever point of view it is regarded, seems to me to be a matter for national congratulation. No violent specifics have been applied to produce it. The steady working of economic laws, under a system of commercial and industrial freedom, is bringing about the result I have described. We see it most clearly in the case of the middle class. We see it clearly, though not quite so clearly, in the aristocracy of the working-class. The influence is permeating society downwards. May we not hope—nay, confidently reckon—that that progress will continue, and will ultimately affect even that vast mass of the labouring population whom, it may be admitted, it has not yet reached, and who, if their position has somewhat improved, as it certainly has, have been benefited not by obtaining a share in accumulated wealth, but by the greater cheapness of what they buy with their wages. And the best of this automatic Socialism is that it appears to operate even in a time of depression. Despite the complaint of absence of profit and of bad times generally, despite want of work and the irregularity in the employment even of those who have work, the great central body of society is strengthening its economic position.

I feel I have done scant justice to the important proposition which I have laid before you to-night, but my object will have been attained if I have inspired others to examine it more fully. It is a theme worthy of the study not only of statisticians, but of every one interested in social and even in political problems, because I believe and trust that that greater diffusion of wealth, which I hope is no

chimera, but a real fact of these times in which we live, will be a source of increasing comfort to increasing numbers in the community, and will also add power and stability to our institutions at large.

THE INCREASE OF MODERATE INCOMES

A Supplemental Study

In the course of the foregoing address I took occasion to point out to statisticians that the question of the comparative growth in the number of moderate incomes, and of the tests by the light of which it might be examined, offered a most interesting field for research. So far as I myself have been able to ascertain, the challenge has not been taken up, at least as a whole. Much excellent work has been done in various branches of the subject. The rise in the incomes of the higher strata of the working class has often been dealt with,—statistics abound in that direction,—but on the special point to which I directed attention in 1885 and 1887, not much evidence appears to have been collected. The reason is probably to be found in the difficulty of disengaging the various and complicated factors which have to be examined before any conclusions can be reached, and in the difficulty of attaining any *certainty*. As I admitted in my address, scarcely any of the calculations could profess to be scientifically accurate, a most discouraging condition to the scientific student. All that I could claim was to show the existence of *tendencies*, and, by comparing like with like over a course of years, to endeavour to counterbalance the disturbing causes which prevented real accuracy.

In the absence of any examination similar to my studies of 1887, I have tried myself, so far as it lay in my power, to bring the figures given in that year up to date, following precisely the same methods as I adopted before.

Unfortunately for the inquirer the methods by which the Income Tax is levied, and the grouping of the figures by the Inland Revenue in their tables, have naturally been devised from the point of view of administrative efficiency, not for the purpose of scientific inquiry; and, as previously explained, all deductions to be drawn from the published accounts and reports have to be accompanied by harassing qualifications. I found myself confronted at the very commencement of my present investigation by the discovery that changes in the arrangement of the returns make it impossible to construct consecutive tables for the last eighteen years corresponding to those published in 1887. Small but heart-rending differences confuse the statistician. For instance, latterly, the lower limit of assessment has been taken at £160 instead of £150, apparently a trifling change, but in consequence all the £3-a-week-men, a very large class, are excluded from the statistics. Thus, the number of Income Tax-payers between £160 and £500, the lowest class now given in the tables, cannot be compared with the class between £150 and £500, formerly the lowest.

Above the £500 class variations are not so serious, but still they hamper comparisons; in one set of figures, for instance, the limit is taken *at* £500 *and under* £1,000; in the other at '*exceeding* £500 and *not exceeding* £1,000.' Thus the comparisons can only be made for the period during which the statistics are given on the same system. I proceed to state them

in the best form in which they can be presented for that end[1].

Beginning with 1888, the same form was kept up till 1893; in this period the increase in the number of assessments under Schedule D of Trades and Professions was as follows[2]:—

At and	*under*	£500	increase	4·18	per cent.
„ £500	„	£1,000	„	5·32	„
„ £1,000	„	£5,000	„	9·46	„
„ £5,000 and *over*			„	6·21	„

I now recall, for purposes of comparison, the percentages of increase similarly classified during the ten years previous to 1887.

The assessments

Between £150 and £500 increased by 19·26 p. c.
Between £500 and £1,000 were stationary.
Above £1,000 decreased.

The contrast seems great. It will be seen how the ratio of increase has changed. Fortunately there is no set-back in any class. There is growth of the numbers in every class, but the moderate incomes, so far as they are revealed by the assessments under Schedule D, no longer increase in number in the same proportion as those above them.

Passing to the next period, 1894–5 to 1897–8, the lowest assessment under Schedule D in the tables constructed by the Inland Revenue is £160 instead of £150, and the limits are otherwise changed. Comparisons with the previous period would therefore be fallacious. But, within the period itself, the changes in the number of assessments were as follows:—

[1] The figures for 1886–7 and 1887–8 are not available.

[2] The numbers in each category are given in Appendix II, Table AA, p. 265.

Between	£160	and	£500	increase	10	per cent.
„	£500	„	£1,000	„	3·69	„
„	£1,000	„	£5,000	„	5·64	„
„	£5,000 and over			„	12·78	„

The table of the last period for which figures have been published, 1898–9 to 1902–3, includes some assessments of incomes from certain 'particular concerns,' and other interests not in the tables of preceding years, which prevents their amalgamation in a provoking manner; but during the years it deals with, the increase in the numbers of each category was as follows:—

						per cent.
Exceeding	£160	and not exceeding		£500	increase	3·03
„	£500	„	„	£1,000	„	6·51
„	£1,000	„	„	£5,000	„	5·24
„	£5,000 and over				„	6·84

Here, again, as in the preceding tables, the highest percentage is in the increases of incomes of £5,000 and upwards, and the general effect presented by the assessments under Schedule D suggests that the smaller middle-class incomes no longer multiply with a faster proportionate growth than those of the higher grades.

Hitherto I have, as far as possible, proceeded in my examination of middle-class incomes on the same lines as I followed in 1887. But the Income Tax statistics since the wide introduction of *abatements* offer fresh and in some respects more trustworthy materials for information—a mine of information which, so far as I know, has hitherto been very little explored. As has already been pointed out, the system of collecting the tax at the source, and the assessment of the same individual incomes under different schedules, make it

impossible to obtain more than very general results, valuable for the purpose of comparison, but not accurate as regards the actual number of tax-payers belonging to a particular class. But when tax-payers claim abatements the searching machinery of the Inland Revenue Department is at once set in motion; and we may rely, I am sure, on no abatement being given unless the limit of income of the claimant is indisputably proved. The area of abatements now covers all incomes from £160, the lowest point at which the State demands the tax, up to £700, the highest to which what is called 'generosity' has now extended a substantial privilege. The statistics published by the Inland Revenue now afford the means of ascertaining with certainty at least the *minimum* number of *individuals* who pay Income Tax on incomes between £160 and £700; that number is officially certified to have been either admitted at once to be entitled to abatements or to have been proved to be so after a minute inquisition. This, then, is the *minimum* number. We know for certain that, though there may be more, there is certainly this minimum number of middle-class incomes within the limits specified. But it is not the maximum, because doubtless many persons from some reason or other fail to claim. If *all* claimed the abatement to which they are entitled, under all conditions of knowledge and of willingness to undergo the necessary formalities, the number of tax-payers below £700 would certainly be shown to be considerably larger than the Income Tax returns exhibit.

The number who have actually obtained abatements are as follows. I take the first years in which abatements were allowed, and the last years for which statistics were published, 1902–3:—

Incomes exceeding £160 but not exceeding £400.
Number on which abatements were granted:

in	1894–5 . .	436,325.
„	1897–8 . .	481,306.
„	1898–9 . .	495,791.
„	1902–3 . .	575,474.

Incomes between £400 and £500.
Number on which abatements were granted:

in	1894–5 . .	13,015.
„	1897–8 . .	26,056.
„	1898–9 . .	31,669.
„	1902–3 . .	49,680.

Incomes exceeding £500 but not exceeding £700.
Number on which abatements were granted:

in	1898–9 . .	15,050.
„	1902–3 . .	38,119.

If the above figures could be taken as the true figures of the incomes between the respective limits, it would appear that there has been an immense increase in every category. In the two highest the number has more than doubled. But a proportion of this progress is certainly the result of the greater urgency in claiming abatements due to two causes, the growing rate of the impost, which stood at 7*d.* in 1893–4 and at 1*s.* 3*d.* in 1902–3, and the activity of the agencies who advertise their expert assistance in guiding the tax-payer, unaware of his privileges, through the technical formalities necessary to enforce his claim. That the recipient of a moderate income should take more trouble to extract an abatement from the Exchequer when the impost is high than when it is low, stands to reason. But, making ample allowance for these causes, it seems clear that the increase in the number of persons in receipt of incomes between £160

and £700 has, as is shown by these statistics of abatements, been very large indeed. The figures appear to me very significant. They distinctly modify the evidence as to an apparent slower increase in these incomes, which the assessments alone, before the deduction of abatements, would seem to convey.

But this apparently slower advance in the number of moderate incomes under Schedule D is to be explained by a further cause. Another very important factor must be taken into consideration. The continuous expansion of the joint-stock companies' system, and the tendency to the amalgamation of a number of smaller concerns into larger organizations, which has become more and more pronounced, check the increase of numbers in the class of smaller tradesmen and their employés assessed under Schedule D, while, on the other hand, they increase the number of employés under public companies. These, together with the employés of municipalities and the members of the Civil Service, the Army and the Navy, are assessed under Schedule E.

Turning to this schedule, and omitting public servants for the moment, we find an extraordinary growth in the numbers of those assessed. The almost feverish development of municipal enterprise must account for a considerable proportion, but the main increase is in the employés of companies. Taking the two classes (municipal and company officials) together, the number has risen from 116,000 to 272,000 during the last twenty years! No wonder that the number of assessments of moderate incomes under Schedule D does not expand in the same proportion as in the earlier period. Not only has there been a transfer of salaried men from private firms to public companies, but a certain number of

the smaller tradesmen have probably themselves been transferred from the column of independent concerns under Schedule D to the vast corps of salaried employés under Schedule E.

Taking Schedule E as a whole, if we add to the 272,000 employés of companies and municipalities,—(the number in the year 1902–3),—the 82,000 public servants who were assessed under this same schedule in the same year, the total reached is 354,000. The great bulk of these were in receipt of salaries which may be classified as moderate, mostly *very* moderate, middle-class incomes. The immense growth of this class is clearly a contributing factor to the slower growth of moderate incomes under Schedule D.

It is possible by taking Schedules D and E together to arrive at the total of persons assessed as employés. In the year 1902–3 those assessed under the former were 81,000; under the latter, as we have seen, they were 354,000. Thus the total is 435,000. Almost the whole of this multitude must be included in the 575,000 who were granted abatements in the same year. The figures confirm each other reciprocally. Both show the great growth in middle-class incomes, and neutralize the first effect of an examination of the assessments under Schedule D, which, unexplained, would convey the impression that the rate of that growth had been checked. The tables show that not more than 30,000 enjoy salaries above £500 a year [1].

Notwithstanding all the difficulties which the arrangements of the statistics of the Income Tax present, some not unimportant results have, it is hoped, been

[1] Of course the reader will not fail to remember that in neither schedule are employés earning less than about £3 a week included.

obtained from their study. The main obstacles, however, to their accuracy lie, as has been repeatedly said, in the assessments not representing tax-paying units. Death-duties, barring other disturbing causes, ought to furnish more trustworthy results because here at all events 'estates' spring from persons, not from firms or companies. The dead man's property is isolated and is a unit for taxing purposes. But it is much to be regretted that here again the statistical inquirer encounters formidable obstacles. The changes in the death-duties render it almost impossible to extract any definite and trustworthy inferences from the figures which chronicle their yield. No comparison whatever can be made between the present statistics of these duties with those of the period with which I dealt in 1887, as the whole system is altered by the substitution of one 'Estate Duty' for the various death-duties, the Probate Duty, the Succession Duty, the Legacy Duty, which existed before the famous legislation of 1893. And, even as regards the last nine years, it is not possible to compare the latest figures very profitably with the first. I print in the Appendix a table[1] giving the number of 'estates' of different value from 1895–6 to 1903–4[2]. As single years in respect of receipts from death-duties may be subject to abnormal fluctuations, it is safest to make comparison over longer periods. In attaching percentages of increase to the table classifying fortunes of different values, I have accordingly divided the last nine years into two periods, the one including the four years 1895–6 to

[1] Extracted from the Forty-seventh Report of the Commissioners of Inland Revenue. Vide Appendix II, Table DD, p. 269.

[2] As the new duties were in force during a part only of 1894–5, it must be excluded from any comparison.

1898–9, the other the five years from 1899–1900 to 1903–4.

The result has turned out to be entirely unsatisfactory from the statistical point of view, beyond eliciting the undoubtedly interesting fact that, from the estates not exceeding £300 gross value to estates of £1,000,000 and upwards, *there is some increase in the number of each class*, that is to say, some increase in the number of fortunes at every level of value. In the lowest there is an increase of 18·7 per cent., in the highest of 14·3, but in the intermediate amounts we are staggered by quite unintelligible differences. For instance, in the class between £75,000 and £100,000 the increase was only ·007 per cent., while in the class between £100,000 and £150,000 the increase was 14·3 per cent. Why should there be this halt in the one class, this sudden leap in the other, both belonging to the well-to-do? The extraordinary law of close averages in the death rate, on which I commented in 1887, has ignominiously broken down.

The class of estates which increased most in numbers was that between £500 and £1,000, the percentage being 24·6, an encouraging economical and social fact. The untrained reader must not forget that an estate of £1,000 will not give the legatee more than £40 or £50 a year. It certainly does not convey riches.

I have indicated some isolated features, but the fact is that the period is too short, and the numbers in each class of estates, especially in those over £25,000, too small, for percentages to be very instructive. An outbreak of influenza in 1899–1900, with a high rate of mortality, brought up the percentage growth, particularly at the higher range, e.g. in the class from £100,000 to £150,000, and in that over £1,000,000, to an abnormal height. Of million-

aire estates twelve paid their heavy toll of 8 per cent. In the following years the numbers were respectively 9, 8, 4, 7. It may be interesting to note that in the nine years under review, sixty-nine of such fortunes—on an average $7\frac{1}{2}$ annually—had to endure the stroke of the heaviest axe wielded by the Inland Revenue.

I fear I must admit that no real light is shed by the table as a whole on the problem as to how the development of middle-class fortunes compares with that of larger accumulations. The startling variations between successive grades in the scale admit of no generalization, and if we have not found instruction in the progressive *numbers* of estates of different value, not much help is to be found by examining their *capital value* classified in a similar way over the same period. The varying rate of mortality amongst millionaires operates here in an even more disturbing fashion. For instance, in the influenza year, 1899–1900, the total value of their estates was in round figures £28,173,000; in the preceding year it was £11,655,000; in the succeeding year, 1900–1, £13,603,000. But in 1901–2 the aggregate of such fortune presented itself to the tax-gatherer to the colossal amount of £38,530,000; while in the last year for which I have figures, 1903–4, the Chancellor of the Exchequer had to deplore the fall of this most lucrative subject of extortion to £14,605,000[1].

Other qualifying circumstances, besides the uncertainty of human life, make it useless to apply percentages for the purposes of marking the growth in numbers of estates of different values. In many cases the payment of duty is long delayed owing to the complication of accounts; in others, the faculty to pay the duty on real property by instalments, intro-

[1] See Appendix II, Table DDD, pp. 270–271.

duces an obviously disturbing factor. Again, I have ascertained that in 1901–2 special efforts to sweep in arrears caused the swollen figures of that year to outstrip all previous amounts before or since. Lastly, the rise or fall in securities may abnormally affect the value of different estates in some years.

Of a possible leakage owing to the occasional freaks of rich men who part with portions of their property before their decease, I will say nothing.

All the above considerations make it unsafe, as I have explained above, to judge from percentages of the relative increase of capital left at death in the various classes.

Is the table, then, useless? I think not, because though no analysis of percentages, by way of comparison of different years, would be profitable, yet the aggregate throws some interesting light on the proportion of capital furnished by different classes of fortunes left at death for taxing purposes.

It may be noted, for instance, that of the total net capital taxed for death-duties in 1903–4, viz. in round figures £264,000,000, £77,000,000 or 29 per cent. consisted of estates not exceeding £10,000, and £150,000,000, or nearly 57 per cent., of estates not exceeding £50,000 in value.

Such figures and conclusions, coupled with those which I have presented from the Income Tax returns, are not immaterial when opinions are formulated as to the distribution of wealth in the community. As I suggested, in the introductory note to this address, they may help to correct the loose impressions to which too often currency is given, that the splendid yield of these forms of taxation mainly point to the prosperity of the so-called 'millionaire.' Amongst those who have given little attention to the subject it may excite

some surprise that the estates below £50,000 capital value count for considerably more in the vast total of property left at death than those above that comparatively moderate line.

If I have to admit that the many figures with which I have troubled, but, I hope, not confused the reader, throw little light on the special subject of the preceding address, I venture to submit, in the first place, that I was bound to examine them in the hope of a more successful quest, and in the next, that, though I have found little light where I desired it most, interesting side-lights have been thrown on some important points, if not directly germane to the inquiry, yet illustrative of economic progress, and not unconnected with the distribution of wealth.

It may be worth while to recall some of the other economic tendencies examined in the address, with a view to ascertaining whether in their case any serious changes can be discerned, or, if not, to what extent they have continued to develop in the same direction.

The most striking phenomenon, after those exhibited by the examination of taxation, was undoubtedly the revolution in the diffusion of profits effected by the enormous strides in the adoption of the joint-stock company system. I called attention to the matter from two points of view—the evidence afforded of the powers of investment by the community at large, and the greater diffusion of wealth due to the multitude of those who under this system shared in the profits of business. Where have the savings come from which have enabled this multitude to become shareholders in these companies? To a great extent

they belong to the distributive class. Their numbers show that they do not represent the wealthy alone, and they continually increase. In this instance the trend of affairs which existed in the period 1877–87, shows no change whatever. In this respect both the powers of investment inherent in the middle class, and their increasing participation in the results of trade and business generally, are not less marked than before. The process is in full, and even intenser, operation.

Here are some of the figures.

The paid-up capital of all registered companies was in round numbers :—

In April, 1877, £307,000,000.
„ 1887, £591,000,000.
„ 1903, £1850,000,000.

Surely stupendous amounts, and instructive as showing by their magnitude how large a proportion of the business of the country is concentrated in the hands of joint-stock companies. But can it be shown that the number of shareholders increases in the same ratio as the capital?

I have no figures to show the aggregate number of shareholders in the 37,287 companies given as the total registered on April 1, 1904, but, following the same method which I adopted in 1887 when I examined the changes in the number of shareholders in a group of companies of various categories taken at random, I have come on analogous results in a comparison of the present situation with that of eighteen years ago, and I have again taken at random, and examined the cases of a certain number of companies of different kinds. In one great bank the number of shareholders has risen from 7,407 in 1885 to 15,701 in 1904. An

addition of 36 per cent. to its capital has been made during the same period, but the number of shareholders increased meanwhile by more than 100 per cent. In another bank I found that the average holdings per shareholder had fallen from £210 to £160. A Life Insurance Company, showing a largely increased number of shareholders, told the same tale; the holding of each shareholder had fallen from 211 to 112[1]. The capital was distributed over a larger number of shareholders. A constantly expanding distribution has been in progress. Instances need not be multiplied. Alterations in the constitution or capital of companies often complicate the calculation. But the general result may be taken as unquestionable. The number of shareholders has grown, even in a much larger ratio than the colossal growth of the aggregate capital; the profits and risks of nearly every kind of business have been spread from year to year over fresh thousands of individuals, and the middle class with moderate incomes are more and more participating in that accumulation of wealth from business of every description which formerly built up the fortunes of individual traders, or of bankers, or of single families. Individuals, of course, still amass vast riches; capital still breeds capital; the successful speculator still rakes in his immense gains, but private firms, families and individuals no longer enjoy their former monopoly: the humble shareholder claims his part.

As in 1887 I turn to a form of investment or

[1] It has been pointed out to me that frequently partners in firms, or employers, place a number of shares belonging to them in the names of their employés from various motives, but in view of the immense number of shareholders and their constant increase, I doubt whether this practice can be considered as a seriously disturbing factor.

expenditure—for in some respects it is both—which throws some further light on the means of the middle class—I mean Life Insurance. The increase in the business of Life Insurance generally is notorious. The question is, does this growth of business spring from insuring for higher sums, or from an accession of numbers insuring their lives for smaller sums? The answer in 1887 was not doubtful, it is not doubtful now. In the period 1877–86, the total amount insured had risen by £37,000,000[1], but the average policy per head had fallen from £492 to £465. What has happened since is still more striking. The reduction in the average amount of policy has been extraordinary and continuous. It is found in every quinquennium. The total amount insured between 1886 and 1903 has risen from £421,000,000 to £686,000,000, but the average policy fell as follows:—

In 1886 the average amount of the policies taken out was	£465
In 1891 it was	£401
In 1896 it was	£365
In 1901 it was	£323
In 1903 it was	£307

The amount insured was distributed over a vastly increased area.

The policies had increased in number from 905,000 to 2,234,000. Notwithstanding bad trade and high taxation, the class of men who insure their lives for moderate sums have in ever-increasing numbers flocked to the insuring companies, surely a satisfactory sign in every respect.

Finally, in my review of the economic movements

[1] I am informed that the extraordinary 'touting' by agents of the Insurance Companies may account for part of the increase.

affecting moderate incomes, I examined the different levels of value of the houses in which their possessors dwelt, and, so far as they belonged to the distributive class, the shops in which they traded. I recall that there was a constant increase in the number of houses inhabited by the less well-to-do, whereas, during the last five years prior to 1887—owing, as I believed, to the depression of trade—the number of inhabited houses of higher value had actually declined. With the general impression that house-rent is always rising, it seemed surprising that in any period there should have been an actual decline in the number of houses valued at over £1,000 a year, and only the slightest increase in the case of those between £500 and £1,000. Such a surprise is no longer in store for those who look at the corresponding statistics of later years. A notable increase, as one would expect, has taken place in the number of highly-rented houses, also a very large increase in houses under £100 in value. The percentage of increase is smallest and not even equal to the increase in population in the number of houses at £100 and under £400. This mysterious drop, while both below and above the limits of this class there is a large increase, presents a problem which I am unable to solve, and I will not embark in the dangerous diversion of fantastic speculation. What is a tangible and satisfactory fact, irrespective of its bearing on the position of different classes, is that the total number of dwelling-houses during the last twelve years for which I have had figures supplied me, has increased by 44 per cent., while the population has probably not increased by more than 12 per cent. The baffling figures will be found in the Appendix [1].

[1] Vide Appendix II, Table HH, p. 275.

In the case of shops, in which that large proportion of the possessors of moderate incomes, who belong to the distributive class, is specially interested, no very striking change has taken place; but the general effect of the statistics of the Inland Revenue is to indicate that there is, as in the case of dwelling-houses, a larger percentage of increase than in the population, and that the percentage in the case of the shops of highest rentals is the greatest. The drift discerned in the former period towards the increase of great establishments is once more very notable, but, while it may have affected the profits, it does not seem to have affected the continuous growth in the numbers of the smaller shops. The happy fact that in every class, except in shops at £20 and under £25, the increase is greater than the increase in the population, may be regarded as a not unsatisfactory symptom of a growing purchasing power on the part of the community and the development of increased business on the part of the sellers.

To sum up the results of this supplemental study of 'moderate incomes' as compared with the results of my former examination, I submit that the evidence from the assessments under Schedule D alone no longer points, as in the earlier period, to a growth in the number of those incomes greater in proportion than that of the larger incomes; that any inference drawn from this test alone must be qualified by the fact of the transfer from Schedule D of many holders of moderate incomes—employés for the most part—to Schedule E; that this schedule shows a very large increase of men in receipt of moderate incomes, and that a review of the number of successful claimants of abatements under all the schedules gives con-

firmatory testimony in this respect; that the 'Death Duties' statistics do not yet cover sufficient ground to offer sufficiently strong evidence on which to form a judgment; and that the remaining tendencies to which I called attention, the distribution of the capital of joint-stock companies over a largely increased number of shareholders, the immense increase in life policies of moderate amounts, the satisfactory growth in the number of dwelling-houses and shops at various degrees of assessments—all largely in excess of the growth in population—are revealed by the statistics of the last eighteen years to be even more pronounced than in the period of my earlier review.

In 1887 I added to my survey of 'middle-class incomes' some examination of the progress of that portion of the working-classes which approached most nearly to the Income-Tax line, applying some similar tests to those which I applied to the classes at and above that line. I have not thought it necessary to bring that part of the address up to date, except in so far as I provide tabular statistics which may be usefully set side by side with those attached to my original investigation. The whole subject of the progress and condition of the working-classes has been so exhaustively treated during late years, in such numerous volumes, such series of blue books, such a deluge of pamphlets, that no short comparison, such as alone would be appropriate to these pages, between the two periods to which I have drawn attention, would convey much information beyond that with which the public has been so abundantly supplied.

I have accordingly confined myself in this supplemental study to the question which forms the real subject of the address itself—the growth of middle-

class incomes, a field to which, in my humble judgment, sufficient attention has hardly been paid. As I have remarked before, the methods of the Inland Revenue department do not contribute sufficiently to this class of research. Nor does there appear to be enough co-ordination between the various official centres which distribute statistical information. The Statistical Abstract issued by the Board of Trade is a mine of wealth and supplies some materials from the Customs and the Inland Revenue, but the labours of the latter department have not been sufficiently utilized for statistical purposes. It has often occurred to me that our national statistics should be concentrated under one head, whose business it would be to take a wider survey than the mere tabulation of figures supplied by others, who should not only publish what was brought to him, but consider scientifically what further materials, useful as throwing light on the economic condition of the country, might be extracted from official records and be made available by systematized arrangement for public use. The tedious examination undertaken in these pages of tables constructed on different principles, defying comparison which, if practicable, would be of great economic as well as of financial importance, would not have been made in vain if it should call effective attention in the proper quarters to the need of reforms in this respect.

APPENDICES I AND II

NOTE.

APPENDIX I was printed with the original address in the Journal of the Statistical Society. I have constructed Appendix II to bring the figures in the former publication, as far as possible, up to date. The tables in Appendix I are printed on the left-hand page, and those in Appendix II on the right, so that the new tables may face the old in the same order. The old tables are marked with single letters A, B, &c., the corresponding later tables with the double letters AA, BB, the object being to enable comparisons between the two to be made at a glance.

DDD is a new table in Appendix II, to which there is no corresponding table in Appendix I.

Table A.—*Number of Income Tax Assessments under Schedule D.*
(Individuals and Private Firms.)

	1877.	1886.	Per cent.
Between £150 and £1,000	317,939	379,064	Increase. 19·26
£1,000 and upwards . .	22,848	22,298	Decrease. 2·40

Table B.—*Income Tax Assessments under Schedule D.*
(Individuals and Private Firms.)
Further analysis.

	1877.	1886.	Per cent.
Between £150 and £500 .	285,754	347,021	Increase. 21·4
„ £500 and £1,000	32,085	32,033	nil
„ £1,000 and £5,000	19,726	19,250	Decrease. Per cent. 2·5
Over £5,000 . . .	3,122	3,048	2·3

Table AA.—*Number of Income Tax Assessments under Schedule D.*
(*Trades and Professions only.*)
Period 1888–9 *to* 1893–4.

	1888–9.	1893–4.	Increase per cent.
£150 and under £500	347,520	362,048	4·18
£500 „ £1,000	31,084	32,737	5·32
£1,000 „ £5,000	18,665	20,431	9·46
£5,000 and over . .	2,965	3,149	6·21

This table is confined to trades and professions and employments exercised by persons and firms.

Table AAA.—*Trades and Professions only* (*Schedule D*).
Period 1894–5 *to* 1897–8.

	1894–5.	1897–8.	Increase per cent.
Exceeding			
£160 and not exceeding £500	278,370	306,200	10·00
£500 „ „ £1,000	26,790	27,779	3·69
£1,000 „ „ £5,000	17,146	18,113	5·64
£5,000	2,785	3,141	2·78

The difference between this table and the preceding one consists in the limits of income in each class. For instance, in the preceding table, line 2 shows assessments of exactly £500 and under £1,000, whilst in this table the same line shows assessments exceeding £500 and not exceeding £1,000.

Table BB.—*Persons, Firms, and Employés* (*Schedule D*).
Period 1898–9 *to* 1902–3.

Exceeding	and not exceeding	1898–9.				1902–3.				Increase per cent.
		Persons.	Firms.	Employés.	Total.	Persons.	Firms.	Employés.	Total.	
£160	£500	212,971	24,888	75,424	313,283	219,462	25,498	77,807	322,767	3·03
£500	£1,000	17,922	10,975	2,519	31,416	19,726	11,145	2,590	33,461	6·51
£1,000	£5,000	7,035	12,403	443	19,881	7,850	12,638	435	20,923	5·24
£5,000		568	2,891	4	3,463	659	3,039	2	3,700	6·84

This table includes a certain number of Assessments upon Firms and Persons owning particular concerns, such as mines, waterworks, &c., and some other interests, which, prior to 1898–9, were not classified according to amounts.

The figures in the column headed 'Employés' should be read in conjunction with the assessments in the following table CC, which shows the numbers of assessments upon employés of Public Companies. The growth of companies involves the transfer of assessments from Schedule D to Schedule E.

TABLE C.—*Number of Assessments under Schedule E (exclusive of Persons Employed in the Public Service).*

1877	78,224
1880	87,724
1883	101,101
1885	112,008
1886	115,964

Table CC.—*Number of all Income Tax Assessments under Schedule E.*

Year.	Employés of Corporate Bodies and Public Companies.	Army, Navy, and Civil Service.	Total.
1888–9	130,862	79,821	210,683
1893–4	166,161	84,342	250,503
1894–5	155,752*	79,822*	235,574*
1897–8	187,240	85,262	272,502
1898–9	223,391	73,571	296,962
1902–3	272,500	82,100	354,600

* The decrease compared with 1893–4 was consequent on the raising of the limit of exemption to £160.

Table CCC.—*Number of Income Tax Assessments exceeding £160 (Schedule E).*

	1898–9.	1902–3.
Exceeding £160 and not exceeding £500 .	148,048	191,327
" £500 " " £1,000 .	16,740	20,978
" £1,000 " " £5,000 .	4,151	5,099
" £5,000	53	89

A similar classification is not possible for years prior to 1898–9.

TABLE D.—*Probate Duty.*

	Gross Amount.
	£
In 1885	3,792,772
„ 1886	3,899,960
„ 1887	3,833,678

	Total Number of Estates.	Estates Under £1,000.	Percentage of Total Number.	Estates Under £20,000.	Percentage of Total Number.
1885 .	59,016	45,950	77·86	57,887	98·08
1887 .	60,480	46,903	77·55	59,269	97·99

	In 1885.	In 1886.	In 1887.
Estates not exceeding £1,000 .	45,950	—	46,903
Between £1,000 and £5,000 .	8,782	—	9,094
„ £5,000 „ £10,000 .	1,938	—	2,082
„ £10,000 „ £20,000 .	1,217	—	1,240
„ £20,000 „ £30,000 .	389	—	444
„ £30,000 „ £40,000 .	208	—	228
„ £40,000 „ £50,000 .	145	—	140
„ £50,000 „ £100,000 .	246	—	255
„ £100,000 „ £150,000 .	61	—	64
„ £150,000 „ £200,000 .	32	32	33
„ £200,000 „ £250,000 .	16	16	17

TABLE DD.—*Estate Duty*, 1895–6 *to* 1903–4.

Numbers of Estates of different values, 1895–6 *to* 1903–4.

Classes of Estates.	1895–6.	1896–7.	1897–8.	1898–9.	1899–1900.	1900–1.	1901–2.	1902–3.	1903–4.	Percentage increase of last five over first four years.
ESTATES LIABLE TO ESTATE DUTY.										
Small Estates. Not exceeding £300 gross value.	14,975	14,943	15,264	15,926	18,383	18,237	18,081	18,024	17,941	18.7
Small Estates. Exceeding £300, but not exceeding £500 gross value.	7,558	7,173	7,581	8,110	8,915	8,707	8,626	8,559	8,724	14.4
NET.										
Exceeding £100, but not exceeding £500	3,948	5,564	7,202	7,653	8,912	6,460	5,606	5,712	5,652	6.2
„ £500 „ £1,000	8,314	7,203	7,473	7,392	8,738	9,434	9,468	9,767	9,909	24.6
„ £1,000 „ £10,000	14,460	12,972	13,836	14,379	16,166	15,814	15,773	16,419	16,114	15.4
„ £10,000 „ £25,000	2,184	2,024	2,118	2,253	2,462	2,290	2,246	2,212	2,214	6.5
„ £25,000 „ £50,000	811	748	841	839	986	887	908	904	874	12.6
„ £50,000 „ £75,000	242	276	265	251	303	263	272	294	272	8.9
„ £75,000 „ £100,000	130	119	133	152	139	133	140	139	120*	.007
„ £100,000 „ £150,000	98	115	124	140	155	140	130	131	127	14.3
„ £150,000 „ £250,000	79	71	84	94	103	81	74	81	92	4.9
„ £250,000 „ £500,000	39	41	49	42	55	51	47	45	40	11.6
„ £500,000 „ £1,000,000	16	20	14	16	12	17	14	19	22	6.2
„ £1,000,000	8	5	7	9	12	9	8	4	7*	14.3
Total Numbers of Estates liable to Duty.	52,862	51,274	54,991	57,256	65,341	62,523	61,393	62,310	62,108	15.9

* These figures are taken from the Forty-seventh Report of the Commissioners of Inland Revenue.

TABLE DDD.—*Estates liable to*

		1895-6.	1896-7.	1897-8.
		£	£	£
Small Estates.	Not exceeding £300 gross value.	2,830,000	2,839,000	2,964,037
	Exceeding £300, but not exceeding £500 gross value.	2,918,000	2,798,000	3,037,166
NET.				
Exceeding £100, but not exceeding £500		1,909,000	3,110,000	4,295,592
" £500 " £1,000		6,848,000	6,680,000	7,314,127
" £1,000 " £10,000		51,400,000	48,722,000	53,703,340
" £10,000 " £25,000		36,850,000	35,094,000	38,081,818
" £25,000 " £50,000		28,234,000	27,854,000	31,628,167
" £50,000 " £75,000		14,964,000	17,754,000	17,444,984
" £75,000 " £100,000		10,752,000	11,009,000	11,796,855
" £100,000 " £150,000		12,140,000	13,711,000	16,217,593
" £150,000 " £250,000		14,419,000	13,989,000	15,617,139
" £250,000 " £500,000		12,435,000	13,491,000	17,883,637
" £500,000 " £1,000,000		8,809,000	13,360,000	12,621,866
" £1,000,000		8,725,000	5,441,000	14,735,614
Total Net Capital liable to Estate Duty.		£213,233,000*	215,852,000*	247,341,935

* In these years the capital was that actually paying duty.

Estate Duty. Net Capital Values.

1898–9.	1899–1900.	1900–1.	1901–2.	1902–3.	1903–4.
£	£	£	£	£	£
3,092,833	3,579,330	3,557,186	3,466,901	3,463,242	3,458,197
3,250,975	3,570,022	3,498,839	3,483,674	3,484,641	3,509,882
4,434,105	4,902,808	3,568,214	2,703,489	2,771,755	2,550,912
7,290,852	8,369,635	8,462,896	8,013,472	8,269,351	8,357,341
55,750,005	61,652,109	60,640,918	58,081,470	61,769,224	59,351,362
39,641,686	43,248,459	40,768,086	40,706,650	41,230,963	39,826,033
33,319,461	36,614,723	33,596,932	35,237,077	35,630,670	33,297,014
16,593,421	18,789,182	18,167,012	18,198,376	19,752,449	19,527,038
13,835,264	12,965,977	13,000,106	12,599,324	13,474,242	11,903,313
18,260,487	19,868,031	18,140,877	18,189,287	18,158,970	17,321,372
19,261,556	20,118,944	17,754,925	15,905,882	17,123,947	18,863,669
13,709,399	20,965,429	16,666,671	19,265,846	17,710,955	14,600,847
10,523,938	9,997,217	13,088,130	14,488,569	15,651,113	16,945,648
11,664,846	28,172,899	13,603,453	38,529,868	11,981,785	14,605,488
250,618,828	292,814,765	264,514,245	288,869,885	270,473,307	264,118,116

TABLE E.—*Public Companies.*

Total paid up capital of all companies registered in April, 1877	£307,108,446
Total paid up capital of all companies registered in April, 1887	£591,508,692

Increase in ten years = 92 per cent.

Number of companies other than waterworks, ironworks, mines, quarries, and railways, assessed to Income Tax:—

In 1877	2,695
„ 1886	5,135

An increase of 90 per cent.

TABLE F.—*Results in the case of Twelve Companies tested.*

Total Paid up Capital.		Total Number of Shareholders.	
1876.	1886.	1876.	1886.
£5,171,649	£6,501,582	11,667	20,083

Increase per cent. in capital in ten years . .	25
„ „ in shareholders in ten years .	72
Average capital per shareholder, 1876 . .	£443
„ „ 1886 . .	£323

TABLE G.—*Insurance Companies (Ordinary Life).*

	Annual Premium.	Life and Annuity Funds.
	£	£
1880 . . .	11,658,819	123,675,355
1885 . . .	12,846,925	142,751,707

	Valuation before last*.	Last Valuation*.
Number of policies .	779,004	901,877
Amount insured .	£383,617,212	£420,650,819
Average amount per policy . . .	£492	£466

* The usual intervals between two valuations are five or seven years.

TABLE EE.—*Public Companies.*

Total paid up capital of all companies registered in April, 1887	£591,508,692
Total paid up capital of all companies registered in April, 1908	£1,850,000,000

Increase in sixteen years = 310 per cent.
Total number of registered companies in 1908 was 35,985.

TABLE GG.—*Insurance Companies (Ordinary Life).*

Year.	Ordinary Assurances.		Average per Policy.	Premiums.
	Number of Policies.	Amount.		
		£	£	£
1886	905,068	421,061,768	465	13,033,945
1891	1,196,945	480,196,330	401	14,565,861
1896	1,543,026	562,344,968	365	19,604,748
1901	2,046,664	661,361,442	323	22,458,422
1908	2,234,565	686,328,174	307	23,908,788

T

Table H.—*Increase in the Number of Dwelling-houses, not Shops, of £20 and upwards.*

Value of Houses.	1875 to 1880.	1880 to 1886.
£		
20— 30	28 per cent.	19 per cent.
30— 40	25 ,,	19 ,,
40— 50	23 ,,	21 ,,
50— 60	22 ,,	16 ,,
60— 80	23 ,,	15 ,,
80— 100	18 ,,	12 ,,
100— 150	26 ,,	11 ,,
150— 300	27 ,,	13 ,,
300— 500	35 ,,	11 ,,
500—1,000	22 ,,	2 ,,
Over 1,000	9 ,,	—3* ,,

* Decrease.

Total of Dwelling-houses of £20 and upwards.

1875	569,326
1880	713,168
1886	838,692

Increase of 1880 over 1875 . . .	25 per cent.
,, 1886 ,, 1880 . . .	18 ,,

TABLE HH.—*Increase in the Number of Private Dwelling-houses, not Shops, of £20 and upwards.*

Class.	Numbers.		Increase per cent.
	1890–1.	1902–3.	
Artisans' Dwellings . . .	—	3,365	—
£20 and under £25 . .	183,148	316,820	73·0
£25 ,, £30 . .	142,431	218,777	53·6
£30 ,, £41* . .	246,927	353,918	43·3
£41* ,, £50 . .	61,174	86,096	40·7
£50 ,, £61* . .	88,919	111,098	24·9
£61* ,, £80 . .	46,362	54,628	17·8
£80 ,, £100 . .	31,768	36,074	13·6
£100 ,, £150 . .	40,844	43,698	7·0
£150 ,, £200 . .	14,931	15,877	6·3
£200 ,, £300 . .	12,202	13,148	7·8
£300 ,, £400 . .	4,566	5,109	11·9
£400 ,, £500 . .	1,968	2,366	20·2
£500 ,, £600 . .	918	1,110	20·9
£600 ,, £700 . .	572	734	28·3
£700 ,, £1,000 . .	732	888	21·3
£1,000 and upwards . . .	707	901	27·4
Total numbers . . .	878,169	1,264,602	44·0

* These classes were introduced by the Customs and Inland Revenue Act, 1890, which imposed lower rates of duty for houses *not exceeding* £40 and *not exceeding* £60 respectively.

TABLE I.—*Increase in the Number of Shops of £20 and upwards.*

£	Between 1875 and 1880.	Between 1880 and 1886.
20— 30	8 per cent.	3 per cent.
30— 40	20 ,,	8 ,,
40— 50	20 ,,	12 ,,
50— 60	20 ,,	10 ,,
60— 80	22 ,,	9 ,,
80— 100	21 ,,	14 ,,
100— 150	26 ,,	5 ,,
150— 300	31 ,,	13 ,,
300— 500	36 ,,	6 ,,
500—1,000	31 ,,	−2* ,,
1,000 and upwards	58 ,,	9 ,,

* Decrease.

Increase of 1880 over 1875 . . .	16 per cent.
,, 1886 ,, 1880 . . .	7 ,,

Increase in Annual Value of Shops between 1875 *and* 1886.

Of all shops	32 per cent.
,, shops of £20—£30	12 ,,
,, shops above £1,000	48 ,,

TABLE J.—*Increase in Dwelling-houses of less than £20.*

	1875.	1886.	Increase.
			Per cent.
Under £10	3,000,370	3,174,806	5·8
£10 and under £15 . .	590,383	932,845	58·0
£15 ,, £20 . .	331,326	517,936	56·3

TABLE I I.—*Increase in the Number of Shops of £20 and upwards.*

Class.	Numbers.		Increase per cent.
	1890–1.	1902–3.	
£20 and under £25 . .	79,198	85,609	8·9
£25 ,, £30 . .	57,263	64,814	13·2
£30 ,, £41 . .	104,213	121,003	16·1
£41 ,, £50 . .	24,557	31,135	27·6
£50 ,, £61 . .	41,301	49,136	19·1
£61 ,, £80 . .	22,099	28,649	29·6
£80 ,, £100 . .	16,102	20,393	26·6
£100 ,, £150 . .	18,236	22,881	25·5
£150 ,, £200 . .	6,911	8,923	29·1
£200 ,, £300 . .	5,189	7,135	37·5
£300 ,, £400 . .	1,902	3,139	65·0
£400 ,, £500 . .	877	1,577	79·8
£500 ,, £600 . .	413	981	137·5
£600 ,, £700 . .	278	645	132·0
£700 ,, £1,000 . .	344	806	134·3
£1,000 and upwards . . .	423	813	92·2
Total numbers . . .	379,306	447,689	18·2

TABLE JJ.—*Increase of Dwelling-houses of less than £20.*

	1893–4.	1902–3.	Increase.
			Per cent.
Under £10	3,221,094	3,247,116	0·8
£10 and under £15 . .	1,219,151	1,672,920	37·2
£15 ,, £20 . .	607,439	835,467	32·3

TABLE K.—SAVINGS BANKS. *Statement showing the Number of Depositors and Amount of Deposits in Trustee and Post Office Savings Banks at the close of the Years* 1875–86.

Years.	Number of Depositors.	Amount of Deposits. Total.	Per Head of Depositors.	Per Head of Population.
		Mln. £'s.	£ s.	s. d.
1875 .	3,256,295	67·6	20 15	40 9
1880 .	3,704,777*	77·7	21 —*	44 6
1885 .	5,128,647*	94·1	18 7*	51 4
1886 .	5,322,225	97·7	18 7	52 9

* The large increase in numbers between these two dates and the decrease per head of depositors are no doubt largely due to the introduction of the method of receiving deposits in postage stamps, which was introduced in 1881.

TABLE L.—INDUSTRIAL AND PROVIDENT SOCIETIES. *Statement showing the Number of Industrial and Provident (Co-operative) Societies Registered under the Industrial and Provident Societies Act of* 1876, *Number of Members, Capital, and Cash received for Goods Sold by such Societies.*

	1875.	1880.	1885.
Number of societies making returns	1,168	1,182	1,346
" members . . .	479,714	603,852	810,228
	Mln. £'s	Mln. £'s	Mln. £'s
Amount of share capital . . .	4·8	6·2	8·6
" loan " . . .	0·8	1·4	1·8
Total amount of capital . .	5·6	7·6	10·7
	£ s.	£ s.	£ s.
Capital per member * . . .	11 16	12 11	13 6
	Mln. £'s	Mln. £'s	Mln. £'s
Cash received for goods sold . .	18·5	23·2	29·9

* Including loan capital.

Table KK.—*Statement showing the number of Depositors and amount of Deposits in Trustee and Post Office Savings Banks at the close of the years* 1890, 1895, 1900, 1901, 1902, *and* 1903.

Years.	Number of Depositors.	Amount of Deposits.		
		Total.	Per Head of Depositors.	Per Head of Population.
		Mln. £'s	£ s.	s. d.
1890 . .	6,868,096	111·2	17 9	58 0
1895 . .	7,969,826	148·1*	17 19	72 10
1900 . .	10,065,006	187·0*	18 11	90 2
1901 . .	10,434,877	192·3	18 8	92 3
1902 . .	10,808,555	197·1	18 4	93 7
1903 . .	11,091,518	198·6	17 18	93 5

* The large increase at this period is no doubt largely due to the extension of the annual limit of deposits from £30 to £50 under the Savings Bank Act, 1893.

Table LL.—*Industrial and Provident Societies.*

	1895.	1900.
Number of returns	1,921	2,220
" " members	1,401,872	1,835,988
	Mln. £'s	Mln. £'s
Amount of share capital	16·6	23·9
" " loan "	4·4	*11·9
Together	21·0	35·8
Capital per member	£15	£19 9s.
Sales of goods	52·1	77 5s.

* In 1900, loan capital includes other creditors.

Table M.—Building Societies. *Statement showing the Number and Amount of Liabilities of Building Societies of the United Kingdom, Incorporated under the Building Societies Acts in the undermentioned Years.*

Years.	Number of Societies making Returns.	Liabilities.
		Mln. £'s
1876 . . .	489	20·9
1880 . . .	1,187	39·4
1886 . . .	2,079	53·1

Table N.—*Industrial Companies* (*the Insurance Companies of the Poor*).

	Annual Premiums.	Life and Annuity Funds.
	£	£
1880 . . .	1,941,994	1,476,933
1885 . . .	3,550,035	4,392,633

	Last Valuation but one.	Last Valuation.
Number of policies .	5,440,493	9,132,271
Amount insured . .	£48,986,237	£83,291,885
Average amount per policy . . .	£9 0*s.* 1*d.*	£9 2*s.* 5*d.*

TABLE MM.—*Building Societies.*

Years.	Number of returns.	Liabilities.
		Mln. £'s
1891	2,882	49·6
1895	2,625	52·9
1900	2,807	*57·6

* Including unincorporated societies.

TABLE NN.—*Industrial Companies (the Insurance Companies of the Poor).*

	Annual Premiums.	Life and Annuity Funds.
	£	£
1885	8,550,085	4,892,683
1902	10,266,000	24,150,000

	Valuation in 1904.
Number of policies	22,518,046
Amount insured	£221,140,809
Average amount of policy	£9 16*s.* 5*d.*

LAISSEZ-FAIRE AND GOVERNMENT INTERFERENCE

Introductory Note

Two-and-twenty years have elapsed since I wrote the following address on 'Laissez-faire and Government Interference.' While looking through it with a view to republication I have asked myself to what degree my prognostications have been verified, my hopes fulfilled, or my warnings justified, and how far, if I wrote again on the same subject, I should express myself in the same vein of opinion and sentiment. The last question I am inclined to answer generally in the affirmative. In some respects the movement in favour of more Government interference has been less rapid than I anticipated, but it has been continuous; and it has developed in many of the directions, and been accompanied by many of the circumstances, which I foresaw. To some of these it may not be uninteresting to call attention.

I attributed the growing disfavour into which the principle of 'Laissez-faire' had fallen, in the main, to four causes: to the greater sensitiveness of the national conscience, calling for State remedies for moral evils, and for more securities for the enforcement of the claims of humanity; to growing discontent with the distribution of wealth and profits; to the increasing demands for regulations due to the difficulties of our complex and overcrowded social system; and lastly to the necessity for the Executive to interfere more and more in the

performance of functions, for the discharge of which the ubiquity of its agents gave it special facilities, and the convenience of the public a special call.

The two latter of these influences have throughout the period under review been powerfully, and, on the whole, legitimately at work. The reader will readily recall some conspicuous instances. The acquisition of the Telephone System and of Marconi's wireless telegraphy furnishes cases of that inevitable widening of the sphere of Government action in the field where, on the one hand, the necessity of protecting a previous monopoly compels the State to undertake fresh work, and when, on the other, the overlapping of different systems and areas contributes to the same result. Some of the drawbacks to which I called attention as attaching to such monopolies have indeed not been absent. 'Such monopolies,' I said, 'are hostile to invention and improvements and substitutes.' The character of the relations which for a long time existed between the State and the Telephone companies was not of a nature to further the rapid development of this new form of social convenience or luxury, and the enthusiastic reception of wireless telegraphy was noticeable rather on the side of the public, than of official authorities. But with all its attendant disadvantages, conspicuous amongst which is the alarming growth of the number of Government servants, these functions seem to me to be forced on the public by the nature of the areas which have to be covered,—areas far too large in their aggregate for private enterprise, yet not such as could be divided, and distributed to separate companies, without complication which would destroy half the convenience required.

The zealous ambitions of the Post Office authorities, not without the assistance of some external stimulus,

have pushed partial reconnaissances into banking territory, but have not effected any substantial conquests in that direction, and I do not regret it. Public convenience can in my judgment only be advantageously pleaded when that convenience is so great, that the drawbacks attendant on the encroachments of State action on the domain of private enterprise cannot be pleaded in bar with convincing force. Otherwise any tendency of the central authorities to occupy new fields of labour ought to be checked.

In 1883 I explained the constant wish even of overworked officials to see fresh duties assigned to them, and I had some apprehension of the possible results of their zeal. I do not consider that this tendency has undergone any striking development. But my impressions as to the danger of an ever-expanding central activity led me to the opinion that 'the more work in the way of public interference the country demanded to be performed, the greater was the necessity of transferring to local authorities as large a proportion as possible of public functions.' I considered that 'strong local bodies were an invaluable bulwark against the dangers, arising either from the caprice or the impatience or the imperiousness or the jobbery of a central authority.' I hoped that if the extended demand for public interference were to be progressively satisfied, we might proceed *pari passu* on the lines of decentralization. The latter hope has been realized. Strong local bodies have been formed. Immense powers have been granted them, but I fear that the very dangers against which I thought they would be a bulwark, have beset themselves. The risks have been transferred to another quarter, but they have not been removed. Municipal trading is being attempted on a vast scale, civic officials have

proved themselves even more ambitious in their administrative efforts, more aggressive in their encroachments upon private enterprise, than I anticipated when prophesying such an attitude as a besetting temptation to the servants of the central authority. Vast undertakings, carried out without much regard for financial considerations, frequent charges of jobbery, risky experiments, an increasing army of dependents upon municipal generosity—such are the constant concomitants of the extension of the over-energetic efforts of civic authorities. The London County Council has done much admirable work, and its members who urge municipal action with the greatest enthusiasm, are free from the taint of personal jobbery or self-seeking, but the spirit of State Socialism is active within their ranks. There are symptoms of impatience and imperiousness. Extravagant expenditure, accumulation of debt, the invasion of field after field of private enterprise, consequences which I feared for the Executive Government, have dogged the footsteps of municipal administration. In no directions have blows more serious been struck at the very foundations of private enterprise. More than this, the question of wages paid out of the public revenue has come to the front in a formidable shape. The attitude of the London County Council towards this question of wages has constituted an entirely new departure, and, as was inevitable, the precedent and example of the great London administration carried the same impetus into the relations of the central Executive with its employés. Supply and demand were dethroned as factors in the relations between public employers and the workmen in their service, and the House of Commons passed a resolution under which the Government was called upon to adopt

a standard of wages from examples and influences outside its own sphere. Most undesirable political pressure, and a weaker resistance on the part of the authorities, have been the natural result. Certainly 'Laissez-faire' has received no heavier blow.

If I failed to foresee in 1883 that the substitution of local action for the expanding activity of central authorities would by no means protect the community against the costliness and the drawbacks involved in public interference with matters better left to individual management, my fears as to the effect of the growing demand for State interference in expenditure and extravagance have unhappily been more than realized. The immense increase in the Civil Service estimates, denounced in its totals, is, in the composition of its items, the direct and inevitable result of the demand by the public for more government, more administration, more inspection, more regulation. What a keener impulse of conscience, humaner inspirations, a stricter sense of national duty have required, cannot be supplied without largely increased taxation. The additional pecuniary burden must be borne patiently as the price of a more satisfied national conscience in respect of social reforms and the securities for their execution.

I mentioned as one of the causes to which in my address I attributed some restlessness in regard to the doctrines of 'Laissez-faire,' dissatisfaction with the distribution of wealth and profits. This must be taken in its widest sense, as embracing the relations between masters and men as well as between landlords and tenants, freedom of disposition as regards property, questions of land-tenure, mining rights,—indeed all the cases where for one object or another individual liberty of contract is circumscribed for

the purpose of modifying pecuniary results which would otherwise ensue.

As regards contracts between masters and men, a very striking instance of legislative interference since 1883 is the Workmen's Compensation Act. Numerous other cases will undoubtedly occur to the reader familiar with the legislation of the last twenty years, but while the radius of Government interference has been widened in striking fashion in many directions, I do not hold that in the sphere of the distribution of property Socialistic tendencies have made as much progress as might at one time have been expected. In 1883 the axe had been laid at the root of liberty of contract in the Irish Land Acts passed at that time. The movement developed in Ireland with startling rapidity, and the precedent has induced legislation elsewhere, notably in the case of the Crofters in Scotland. The public mind and conscience are less impressed by the sanctity of property; unearned increment, long threatened, may at any time be called up for sentence, and symptoms of restlessness as to the legitimacy of other rights and privileges are not wanting. Certainly the maxim that 'a man may do as he likes with his own' has been expunged from the orthodox creed. Still, viewing the situation broadly and impartially, I do not discover any great increase, any impatient pressure for legislation affecting property, as compared with the atmosphere in certain quarters twenty years ago, when Mr. George's fascinating and brilliant book, *Progress and Poverty*, made much stir on both sides of the Atlantic.

But if, on the one hand, the dreams of certain classes as to the forfeiture to the State of unearned increment, the curtailment of mining rights, and more direct forms of assailing property, have but

slowly advanced as issues in practical politics, the more indirect form of forwarding the dispersal of accumulated wealth by the sapping operations of taxation has been vigorously applied. A graduated Income Tax to affect the growth of fortunes during life has not been enacted, though the process of graduation in the lower scale of incomes has made considerable progress; but the death-duties have achieved the end of lessening accumulations amongst heirs to an extent which appeared far beyond the range of probability in 1883.

To turn to the most evident and most accepted causes of the humiliation of the Laissez-faire position: the sentiment of the inadequacy of individual liberty to secure the reform of social abuses, the apprehensions that self-interest will assert entirely inadmissible claims, incompatible with the public good unless severely restrained by official authorities—I see nothing to change in my former views. The same currents of feeling have been flowing with even stronger force, and in an expanding stream. They have accomplished much, very much. It is unnecessary to enumerate the immense results. No reaction has set in in what I have called the working of the public conscience. But as the reader peruses the pages which I wrote two-and-twenty years ago, he may possibly be struck by the fact that notwithstanding the strength of public opinion, apparently insuperable difficulties have in some cases blocked the way. I devoted a considerable space to what even then was a burning question, the housing of the poor. It has not yet burnt itself out. It still faces us in its grim proportions. I noted that in this instance nearly all the causes which direct the demand for Government interference were at work, a public sense of moral responsibility, dissatisfaction

with the present distribution of wealth, complications arising from the crowded state of society, and the belief that the Government was the only possible *deus ex machina* to solve an almost insoluble problem. Of all these influences I expressed my belief that a wave of deep and strong feeling passing over the public mind would be the most potent. What my own views on the subject were is stated fully in the address, and they are still the same. Some Acts have been passed, many reforms have been attempted and some accomplished. 'Laissez-faire' has been peremptorily bidden to stand aside. But still, it would appear the task is far from complete. The complications of an overcrowded society still baffle the efforts of the Legislature and the philanthropist alike.

The temperance movement has been another of the subjects which has remained with us since 1883, evoking the same enthusiasm in undiminished force, surrounded by much the same difficulties, and encountering much the same opposition, though some breaches have been made in the defences of vested interests. The rights or claims of the latter still secure considerable support, but in the licensing trade the advocates of free contract have no longer a single word to say. Against them the champions of social reform have absolutely prevailed, but defenders of the rights of property have not yet been ejected from the narrower positions to which they have been driven by the aggressive forces of popular sentiment.

On other topics raised in my address I must leave the reader to judge to what extent I have been a true or a false prophet, either of tendencies of which I expected further developments, or of risks which would undoubtedly be run. On the whole I am inclined to think that work undertaken by the State

has been better done, and with less friction than I anticipated; while on the other hand I fear that the spirit of self-reliance has suffered in the process, and the sense of individual responsibility, as was foreseen, been sensibly injured.

One further point, however, suggests interesting consideration. In 1883 I had to ask myself how it was, that while the increasing democracy at home was insisting with growing eagerness on more control by the State, we saw so small a corresponding development of the same principle in the United States or in Anglo-Saxon Colonies. I attributed the contrast in the main to the sensitive, philanthropic element being stronger in the old country, and to its civilization being more complex, more crowded, more honey-combed with anomalies. In the Colonies individual energy could expand with less encroachment on the interests of neighbours, and the first instincts of man for untrammelled liberty and confidence in himself and in his power to hold his own, were still undisturbed. I doubt whether this attribution to our Anglo-Saxon Colonies of a spirit of personal independence, of attachment to the principles of individual liberty, still holds good of our Australian kinsmen. Administrative control may still be invoked with less frequency than here, but the organization of individuals into corporate bodies seems equally to have dethroned the principle of 'Laissez-faire,' and to be leading up to further encroachments on freedom of contract and the exercise of private rights.

In the United States a different movement is making its way; there, the central Executive, alarmed at the unbridled efforts of gigantic trusts to exploit the community for their own profits, seems resolved to refuse to allow them the advantage of the full principle

of 'Laissez-faire.' The development of fresh forces of economic organization compels the adoption of fresh forms of Government interposition. President Roosevelt's new departure opens up a wide vista of State action in the direction of the control, and possibly of the serious infringement, of private rights. In the New World as in the Old we can trace a growing disbelief in the efficacy of natural liberty, though the change of opinion is in many respects to be traced to different causes. Possibly it is still true that economic necessities and the need for regulating jostling forces and antagonistic influences have contributed more to the increasing invocation of Government interference in the New World than the sensitive, humanitarian emotions to which, even in this material age, I shall be found ascribing the chief moving forces in uprooting among ourselves the old principle of individual freedom and responsibility.

In conclusion, I will raise, but not attempt to answer, the deeply interesting question, How have the reforms, due to the irresistible cry for regulating certain conditions in the conduct of our many industries, affected our industrial resources, our power of output, our possibilities in the direction of cost of production, our qualifications for competing in the world's market? Technical knowledge, which I do not possess, could alone furnish a reply to this inquiry.

In 1883 I wrote that 'Laissez-faire' had lost caste chiefly owing to moral considerations, to the assertion of the claims of other than material interests, with the deliberate risk of the loss of commercial and industrial force for the sake of social reforms; at the same time, I quoted from a high authority that, in the main, the interference with freedom of action and contract had

husbanded industrial resources by restraining the waste of them. The result of the Factory Acts was cited as a case in point. Has the experience of the last twenty years proved the soundness of this aspect of the results? Over and over again, it was asserted by the champions of the better and more humane regulation of labour that closer inspection, shortening of hours, improved sanitation and the enactment of many similar reforms, had strengthened the physique of the wage-earning class and improved their status generally, thus making them fitter and stronger for international competition, more capable of successfully meeting in the industrial race the foreigners who were less protected in these respects. Who can gauge the truth? Whether or no improved material conditions flow from national insistence on higher standards of life, the policy was the outcome of the awakening of the national conscience, and no pleas of the attendant risks would have gained or, in fact, did obtain a favourable hearing. The risk was faced, and public opinion was prepared to accept the material results, whatever they might be.

Lately, in the development of the Fiscal controversy, the conviction that the foreigner was overtaking us and that our industries were on the decline, apparently suggested to Mr. Chamberlain that the action of the State having placed restrictions on individual liberty, which hampered our manufacturers and handicapped them in the race, a claim for tariff protection might be fairly put forward by the manufacturing industry which suffered in output or in cost,—in fact in prosperity—as a consequence of the regulations imposed. This is not a place in which to examine whether the indemnity offered, in the shape of counter fiscal protection, would effectually improve the position. The

point of interest is the assumption implied in the argument that British industry has suffered and not gained from Government interference, and that after all the men who prophesied that some material loss would be the price paid for social improvement, were in the right. Nothing but exhaustive inquiry by a tribunal of almost impossible impartiality would be able to arrive at any conclusions which would be generally accepted. But, the issue having been raised in a practical form in the shape of an argument for a new Fiscal system owing to industrial damage inflicted by the action of the State, some weight appears to be given to the view that in further legislation affecting the freedom of vast industries, the plea that the producing powers of the nation would not be prejudiced, should not be too readily accepted in a moment of deaf enthusiasm. Let us pay the cost when national duty or national sentiment requires it, but let us *know* that we pay it, and accept the fact with a full and conscious knowledge of the consequences. There is no reason why philanthropy should be blind.

LAISSEZ-FAIRE AND GOVERNMENT INTERFERENCE

An Address to the Members of the Philosophical Society at Edinburgh in 1883.

I have chosen 'Laissez-faire and Government Interference' as the subject of my address to-night because, among all the complicated social and economical phenomena of the present day, none appears more interesting or of deeper importance for philosophers, economists, politicians, and, indeed, for all students of the varying aspects of our national life, than the changes which have occurred and are daily occurring in the relations between the State and individual liberty. None of us can be blind to what is passing around us in this respect. Whether we look to the events of successive years, to the acts of successive Parliaments, or to the publication of successive books, we see narrower and narrower limits assigned to the application of the principle of 'Laissez-faire,' while the sphere of Government control and interference is expanding in ever widening circles.

The extension of State action to new and vast fields of business, such as telegraphy, insurance, annuities, postal orders, and parcels post, is not the most striking feature. What is of far deeper import is its growing interference with the relations between classes, its increased control over vast categories of transactions between individuals, and the substitution in many

of the dealings of trade and manufacture, of the aggregate conscience and moral sense of the nation, for the conscience and moral sense of men as units. The parent in dealing with his child, the employer in dealing with his workmen, the shipbuilder in the construction of his ships, the ship-owner in the treatment of his sailors, the house-owner in the management of his house property, the land-owner in his contracts with his tenants, have been notified by public opinion or by actual law that the time has gone by when the cry of 'Laissez-nous faire' would be answered in the affirmative. The State has determined what is right and wrong, what is expedient and inexpedient, and has appointed its agents to enforce its conclusions. Some of the highest obligations of humanity, some of the smallest businesses of everyday life, some of the most complicated transactions of our industrial and agricultural organizations have been taken in hand by the State. Individual responsibility has been lessened. National responsibility has been heightened. Reliance is being placed on the efficiency of new forces, and on the application of new principles. The attitude of the public towards 'Laissez-faire' on the one hand and State action on the other has entirely changed.

I wish it were in my power to present you with a history of the ups and downs of the principle of 'Laissez-faire' in popularity and prestige. I wish I could place before you how it has fared at the hands of successive generations since the time when first, in protest against the unbearable interference of Government in all and every department of industry, and against a tyrannical control over the majority of the transactions of life, the cry was raised in France, more than a hundred and thirty years ago, by champions of freedom of trade and freedom of labour,

'Laissez-nous faire, laissez-nous passer'—'Give us freedom of action and freedom of movement.' In the present day of its declining popularity, let it not be forgotten that this principle owes its origin not to hard and impassive theorists and cold-blooded economists, but to a school of ardent and almost revolutionary social and philosophical reformers, the Physiocrats, as they were called, of the eighteenth century.

I wish I could say more on this head. 'Laissez-faire' deserves some gratitude. The names of men who have rendered untold services to liberty in all its branches are associated with the story of its development, but I have neither the leisure nor the knowledge for such a historical review. I commend it to the attention of more learned economists. I have read most instructive separate chapters, in books on political economy, on the various stages of the controversy between the advocates of the principles of natural liberty and those of State control. But the subject is so vast as to deserve not only incidental treatment, however able and lucid, in a general work—it is well worthy of a book to itself.

Most writers on 'Laissez-faire' have occupied themselves mainly with discussing the proper limits of the functions of Government. In so doing they have been compelled to analyse the various possible forms of State interference, to classify them in groups under certain heads, and to examine what were indispensable functions and what optional. Such analyses and classifications have great attractions, especially if they lead to generalizations which can be clearly stated and easily grasped (a result, however, which I fear has never been accomplished in the case of 'Laissez-faire'). But if I were to attempt such a task to-night, I should

most surely fail to compress within an address such as this even a bare catalogue of the different groups of legitimate or illegitimate functions of Government accompanied by the shortest summary of the arguments on either side. I propose, therefore, turning aside from the abstract and theoretical speculation, to confine myself in the main to an examination of the causes of that wider actual application of control, and that growing disbelief in the efficacy of the action of natural liberty, which are giving a fresh character to so many features of our economical, social, and even national life. I should further wish to pass in short review some of the possible consequences of the course on which we are travelling so fast.

I need scarcely remind you that the causes of this revolution in public sentiment have been complicated and various in the extreme; but, amongst the many contributing influences, some stand out clear and prominent.

Foremost amongst them I discern an awakening of the public conscience as to the moral aspects of many sides of our industrial arrangements—rising doubts, less as to the efficiency of existing organizations for producing wealth (though this, too, has been called in question) than as to their compatibility with the humane requirements of improving civilization. The existence of facts previously unknown or ignored has been revealed in striking colours, the public sense has been stirred, and emotions aroused which demanded the application of immediate and direct remedies. I hold the principle of 'Laissez-faire' to have lost favour, chiefly owing to moral considerations, to the assertion of the claims of other than material interests, and to a growing feeling that it is right deliberately to risk commercial and industrial advantages for the

sake of reforming social abuses, and securing social benefits. Professor Rogers, in his late able address on 'Some Sides of Laissez-faire,' makes the very striking suggestion that all interferences with freedom of action or contract, which have stood the test of experience, have had, more or less distinctly, the aim of husbanding industrial resources, by restraining the waste of them, and have achieved that result. He cites the Factory Acts in illustration of his point. The Education Acts might similarly, and with much reason, be quoted as due to the desire to augment our industrial power.

But I believe that, certainly in the case of the Factory Acts, and to a great extent in the Education Acts, it was a moral rather than an economical influence, the conscientious feeling of what was right rather than the intellectual conviction of ultimate material gain,—the public imagination touched by appeals to our higher nature,—which supplied the tremendous motive power necessary for passing laws, and put the State and its inspectors in the place of father and mother as guardians of a child's education, labour, and health.

I trust I shall not be misunderstood. Arguments based on the deficiencies of our national education, which prevented us from competing with other countries, have been urged over and over again, and they have prevailed, apart from any moral influences, in causing the foundation of many Government educational establishments, besides the primary schools. But although these establishments *offer* teaching, they do not *compel* it; they give inducements and certificates, and they belong less to the category of control or interference than to the category of services performed by the State, which would not otherwise be

performed at all. What I wish first to insist on is that the victory of the principle of compulsion over the principle of natural liberty could never have been gained except by a moral force.

Numerous other instances will at once occur to you of the result of the awakening of the public conscience. You see its effects in the legislation respecting ships and sailors, the prevention of accidents in mines and manufactories, the curtailment of hours of labour, the employment of women and children underground, the state of canal boats, unsanitary dwellings. All the Acts of Parliament relating to these subjects have been based mainly on moral grounds. In the case of many of them, arguments from expediency have not been wanting, but the stimulus has been given by the sense of moral right.

Take the case of legislation which followed on Mr. Plimsoll's crusade. The public and Parliament were moved by the startling numbers of sailors who perished, apparently from remediable causes, in the course of a single year. Such a wholesale loss of human life must be stopped at any cost. No arguments as to the possible effect of stringent legislation on the fate of British shipping would have been listened to. They would have been brushed aside. An incredulous and impatient attention was given to pleas contending that the proposed legislation might not be effectual for its purpose, or that the facts were exaggerated, but no arguments could have stemmed the tide. The State must act; the State alone could be trusted. Its agents must assume the responsibility. 'Laissez-faire' had been tried and found wanting. The ship-owners must henceforward conduct their business under Government control.

Events in this instance marched rapidly and in a striking form. But the history of the laws relating to merchant shipping is but a duplicate of other similar legislation. The doctrine of 'Laissez-faire' meant that a man's own interest is one of the surest factors in the production of wealth; but if, in the pursuit of individual interest, it was proved that the safeguards for the security of the interests of others in life or limb were insufficient, the public demanded that restraint should take place. The plea has not failed to be put in, that the power to inflict injury or risk on the employed did not lie in the hands of the employers alone; that the employed might refuse to serve masters whom they could not trust; that self-interest, however selfish, would ultimately have to yield to the influences which would be brought to bear upon it; that to relieve the employers of responsibility would lessen some securities, though others might be offered. But, in my judgment, it has become, wisely or unwisely, a matter of conscience with the public, that it cannot stand aside when calamities occur; that the indirect action of other influences is too slow, or too uncertain; that in its own action alone it can find the satisfaction of its conscientious scruples. In view of this attitude of the public mind, I have spoken of the substitution of the conscience of society and national responsibility for the conscience of individual men.

The striking advance of the temperance movement is, of course, another instance of the influence of moral feeling—moral feeling so strong and deep as to become almost deaf to arguments as to the rights of individuals. Champions of this cause are, again, perfectly entitled to plead from their point of view that true expediency is on their side, and that even

the wealth of the nation suffers from the wide prevalence of drunkenness. No analysis of motive is ever exhaustive, and few are accepted as just; but I contend that the evils excited by the degrading effects of drunkenness, the sympathies awakened by the innocent sufferers from the vice of others, the disgust at the existence of a national scandal, have had infinitely more power than any other motive in bringing the country up to its present point in respect of preparedness for legislation which would have been absolutely impossible a few years ago. Liberty is made to yield to the claims of morality; but, in this country at least, it is seldom, if ever, sacrificed to grounds of expediency alone.

I need scarcely say more as to the extent to which the principle of natural liberty has been attacked on the ground that, sound as it may be as a system for *producing* wealth, it stood condemned as permitting certain abuses, and leaving certain deficiencies unsupplied, for which the public must have an immediate and direct remedy.

Another not dissimilar cause has been undermining 'Laissez-faire' on parallel lines. The charge is laid against it that whether or not it succeeds in *producing* wealth, it fails in bringing about a sound and just *distribution* of wealth. Freedom of action on the part of individuals and classes is accused of leading to abuses and dangers in this respect to which it is alleged in some quarters the State ought to and could apply a remedy. The prosperity of the country is examined and analysed. Certain classes are said to be prosperous and to have become richer and richer, others have not prospered equally, some have not prospered at all. This inequality of progress has happened under 'Laissez-faire.' *Post hoc, propter*

hoc. The State should try its hand at what natural liberty had failed to do. Under this process of reasoning it is argued that 'Laissez-faire' is a perfectly natural motto for capitalists, manufacturers, landlords, and tradesmen, and the cry is raised, 'They have had their way, and see what has come of it!'

I need not dilate on the searching inquiry which at once suggests itself as to many of the facts alleged in these arguments, and as to the connexion between the alleged cause and the alleged effects. It may be asked whether there are not other causes at work which account for the alleged effects, whether any system is feasible by which the distribution of wealth can so be regulated as to satisfy an abstract standard of justice, and whether, if the State goes very far in regulating the distribution of wealth, the amount of wealth to be distributed may not be reduced to such an extent as to cause almost universal loss. I simply allude to such questions lest my silence with regard to them should be misconstrued, and I would very earnestly entreat all who hear me to remember that the limits into which I must compress my remarks prevent me from introducing countless qualifications and explanations which the complicated nature of my subject really demands. I must appeal to the candour and indulgence of my critics in this respect, and beg them to believe that if I omit many considerations of great importance it does not follow that I have ignored them. Time prevents me from entrenching my position as I go along.

The profits derived from land are the form of wealth, the distribution of which has thus far excited the most attention. The land agitation (to use the popular phrase) in England and Scotland (I will touch on the Irish Land Act separately) I take to be an

insurrection against the principle of 'Laissez-faire,' as failing to secure justice to the tenant in the distribution of the aggregate profits derived from the partnership between land, capital, and labour. You will observe how the word 'justice' is constantly used. It is assumed that, apart from what men agree to, there is an abstract standard of distribution, within the limits of which, but only within the limits of which, free contract is to be allowed.

But the question between landlord and tenant as to agricultural improvements sinks into insignificance by the side of a point of vast importance which is now being raised as to the relations between landowners and the community at large. The wealth which has accrued to the owners of land, including the owners of the sites on which towns are built, is being denounced as one of the gravest social and economical misfortunes which befall societies. It is important to recollect that this view, advanced with much ability and enthusiasm, is not raised simply as regards land in the United Kingdom. The question has been started in a much broader form. 'Is it right that in California or in any new country individuals should buy up the sites of towns, or secure vast estates by purchase, and speculate with them till the community is driven to take them off their hands at incalculable profits?' That is the position taken up by the advocates of the nationalization of land. Not only is freedom of contract in respect of land-ownership to be limited, but land is to be withdrawn altogether and absolutely from the domain of purchase and sale. Such is the extreme proposal, but principles are involved likely to give rise to far more practical discussion than the plan as a whole. It would be incredible that even a very advanced democracy would accept

Mr. George's scheme as it is put forth [1], but the right and duty of the State to control and limit the profits arising from the monopoly of land is insisted on in influential quarters as part of a practical programme. And it is argued that this object can be partially attained without recourse being had to more startling methods, by a system of special taxation. The imposition of taxes has often been used for other than revenue purposes. Where protection to native industry is demanded, the machinery of the tax-gatherer furnishes a convenient instrument ready to hand; and similarly the hand of the State is to be invoked to secure a distribution of wealth on new lines and principles. Nor are these ideas to be applied only to the owners of land. Liberty in making testamentary dispositions is charged with producing such accumulations of wealth as are contrary to the general interests. Here, again, it is suggested that taxation will do the necessary work. A judiciously revised system of death-duties is to be the answer of the community to any deathbed desire of 'Laissez-moi faire.'

Special demands by some classes of the community for curtailment of the limits within which they may make bargains, special demands by the State on the increment of value accruing to land by the progress of the community, a graduated Income Tax to prevent the accumulations of fortunes during lifetime, death-duties so arranged as to prevent accumulations amongst heirs —such are some of the vast views which are being brought to the front, in all of which Government interference is to take the place of 'Laissez-faire' in the distribution of wealth.

Let us turn to a third cause. As society becomes more complex, more crowded, as conflicting interests

[1] *Progress and Poverty*, by Henry George (1883).

jostle each other more and more, so will the cry for more regulation become louder from day to day. Till some years ago the street traffic in the metropolis regulated itself. The rules of the road were held to suffice. The stream of vehicles passed to and fro under a very wide application of 'Laissez-faire' and 'Laissez-passer.' But when blocks became more frequent, collisions more numerous, street accidents more and more a common occurrence, the cry arose for the police. Society in the shape of two policemen stationed itself in all the important thoroughfares. Coachmen were stopped, drivers directed, foot-passengers assisted, refuges constructed. Freedom of passage ceased. The principle of individual liberty yielded to organized control. Similarly on the highways of our industrial traffic, and in the movements of society along its various tracks, it would appear that collisions became so frequent, and accidents so numerous, complications, crowding, and disputes so intolerable, that the police of the State were summoned at every turn. Regulations unnecessary and odious in a simpler state of civilization not only became acceptable, but were loudly demanded.

If this be in truth a contributory cause, it may furnish an explanation of a phenomenon which has often struck me as remarkable, and requiring explanation. How is it, I have often asked myself, that while the increasing democracy at home is insisting with such growing eagerness on more control by the State, we see so small a corresponding development of the same principle in the United States or in Anglo-Saxon Colonies? It is clearly not simply the democratic spirit which demands so much central regulation. Otherwise we should find the same conditions in the Anglo-Saxon democracies across the

seas. Other causes must be at work in the United Kingdom. On the one hand, the philanthropic and sensitive element is always infinitely stronger in the old country; and, on the other hand, its civilization is more complex, more crowded, more honeycombed with anomalies, more running into extremes. The Colonies have more breathing-space. There, individual energy can expand with less encroachments on neighbours' interests. There, movement is freer, and the first instinct of man for untrammelled liberty, confidence in himself, and in his power to shift for himself, and hold his own, have not yet yielded to the acquired taste for that regulation, control, interference, and inspection with which the most independent-minded nation in the world is rapidly being inoculated as an outcome of the latest form of its civilization.

While society in the old country, as I have shown, thus demands the aid of the State to expedite and further its transactions by regulating and organizing them, the movement is stimulated by a further cause. The successful performance of a certain set of duties by a public department inspires its administrators with the natural desire to extend their sphere of acknowledged usefulness. Ambition for more work is a sentiment not confined to those whose pecuniary self-interest prompts them to enlarge an industry which is a source of personal profit. Nor, when it is exhibited by public servants, need it be cynically attributed to a thirst for more power, patronage, or importance. I have had some experience of the qualities of civil servants of the Crown. It is a mistake to credit them with any tendency to scamp their work. On the contrary, the leading men amongst them, the flower of an honourable profession, who rarely reap sufficient acknowledgement at the hands

of the public, who are often debited with the failures, but less often credited with the successes of their department, show the keenest desire for adding field after field to the region in which they labour. No country gentleman covets more earnestly bits of land lying outside of, but adjoining, his estate, than the energetic heads of departments, whose work has succeeded, covet an extension of the limits of their activity. You may remember how the desire of the Post Office authorities for the acquisition of the telegraphs almost developed into a passion.

Again, the Post Office succeeded in Savings Banks; why not try their hand at banking? Their distribution of letters gave widespread satisfaction; why not distribute parcels also? And if banking and annuities, and savings in every form, why not insurance also? As to the public, it gladly accepts any immediate and palpable boon from a department which has served it well. I do not contend that the demand of the public for that regularity, security, and, above all, universality, that carrying the conveniences enjoyed in populous centres into remote nooks and corners of the country, which it is believed central agencies alone can secure, has not contributed largely to this acquisition by the central authorities of many businesses hitherto left to local and private enterprise. Indeed, it may be cited as a separate and very notable cause. But, believe me, the stimulus comes also from the departments. Nor is it unimportant to bear this tendency in mind. The more the public puts upon civil servants, the more will civil servants offer to do for the public.

Perhaps I have dismissed the wish of the public for the performance of such duties as telegraphing and carrying parcels in too few words, considering the important bearing it has had on the extension of

Government activity. But it lies nearer the surface than the other influences which I have described. And I was about to say that it concerns that branch of Government functions on which there has been some degree of agreement, namely, those which the Government, from the fact that it has agencies of its own throughout the country, can clearly perform with the greatest advantage; but this suggestion would not command universal assent. For instance, the propriety of the degree to which it has attempted to extend its insurance and banking business has often been called into question.

One cause of a more exceptional character than those broad causes with which I have hitherto been dealing, ought scarcely to be omitted in the enumeration I have made. Government interference may sometimes appear the only *deus ex machina* for the immediate solution of some political or other difficulty, of which the instant termination is demanded by high reasons of State. Of all recent legislation, the Irish Land Act is probably the most gigantic invasion of the principle of 'Laissez-faire' in recent times. The call for the substance of that Act was clearly due in great measure to one of the causes which I have already discussed—dissatisfaction on the part of the Irish with the distribution of the joint product of land and labour; but the Act was avowedly not based simply on the intrinsic merits of the case. Heroic remedies were required for an exceptional and almost revolutionary state of things; and the knot which for centuries had become more and more inextricably tangled could, in the judgment of those who were responsible, be only cut by the State. But here, again, as in other cases when the ball has been set rolling, the new departure is in the strictest sense

of the term a departure only. It is not an arrival, not a terminus. An isolated act of heroic legislation cannot be limited by the declarations of its authors. It has its effect on the public mind, on the beliefs entertained as to the general functions of the State. I am speaking simply as an economist, and a student of contemporary history, to members of a philosophical institute. Within these walls we are not concerned with political parties. We know no party questions. But an account of the present situation of the principle of 'Laissez-faire' would not be complete if all allusion to legislation, which so materially affects it, were omitted. For better or worse the Irish Land Act is a landmark in the history of the accelerating rate of Government interference; and the force of the precedent, and of its effect on various classes, cannot be ignored.

I have endeavoured to put before you several powerful causes of the change in the public mind, which I am attempting to explain. But I venture to think that the degree to which, in these last years, these influences have been operative, is due to a further cause of a very important and significant character. Trust in the action of the State would never have developed to the extent to which recent legislation, and still more the actual demands for much more drastic legislation, prove it to have grown, if the organization of the State had not undergone very material modifications. Changes in the distribution of political power have produced changes in the manner in which the action of the State is regarded. Control by an oligarchical Government would have been repugnant to the feeling of the commercial classes. Control by a Parliament mainly influenced by the commercial and capitalist classes would have

inspired little confidence in the mass of the people. *Pari passu* with the development of more democratic conditions, a demand by the awaking democracy for action on its behalf was a not unnatural result. So long as legislation involving minute Government interference could be regarded simply as paternal legislation, it excited, not confidence, but distrust. The people of this country have never wanted the State to be parental. Now, when the State is invoked, it is not invoked as a parent, or as a beneficent master; it is invoked as the agent, aye, as the servant, of the people's will. From this point of view the movement is essentially democratic. Society wants its representatives to act on its behalf. Society demands to control the individual. The movement is distinctly Socialistic.

I cannot conclude this review of the causes of the present intense demand for Government interference without alluding to the burning question of the housing of the poor. In this case nearly all the causes which I have noted, combine to create the demand—a public sense of moral responsibility, dissatisfaction with the present distribution of wealth, complications arising from the crowded state of society, and the belief that Government is the only *deus ex machina* to solve an almost insoluble problem. I include dissatisfaction with the existing distribution of wealth, for no candid observer can ignore that the high profits realized by the landlords and the extreme poverty of many of the tenants are strong elements in the present agitation. But what will carry this movement forward to an actual experiment, as it has carried others, will not be expediency, though arguments based on expediency will be most powerfully urged, nor the agitation of those who have to pay exorbitant rents, but a wave

of deep and strong feeling passing over the public mind.

I agree with Lord Salisbury that the principle of 'Laissez-faire' cannot be pleaded in bar of all action in the matter. A most complicated situation has been created, partly by acts of the Legislature itself, in which 'natural liberty' is scarcely recognized; and it is clear that there are many parts of the subject with which, under any theory of 'Laissez-faire,' the State is competent to deal. But the first question to be decided will be, whether the State is simply to appear on the stage in a benevolent character, placing national resources, in loans or otherwise, at the disposal of persons prepared to build houses for the poor; or whether the true beginning is not to insist on a sterner and more thorough enforcement of individual responsibility. To my mind the argument is almost irresistible, that it is as just to prevent, and if necessary to punish, house-owners who let out rooms unfit for human occupation, as tradesmen who offer putrid food for sale. Tenants may knowingly, in their inability to procure other accommodation, take such rooms and pay famine prices for them, just as the extremely poor might knowingly buy bad food. But this does not relieve the owner of his responsibility, nor can the State permit the evils of a virtual monopoly to be intensified by that monopoly being used in a manner destructive of health and morality. Two evils have to be met: the existence of vast tracts of buildings, partly themselves dangerous to health, partly so occupied and crowded as to be dangerous to health, and, secondly, the absence of sufficient suitable dwellings. The State is more capable of dealing with the former than with the latter, and here is the key to the situation. No element in the whole matter is

more important than how, and at what price, sites can be obtained. The readiness to embark capital will depend on the cost of sites. It is possible that when purchasers, armed with loans from the State, enter the market, the value of building-sites will rise still further if the owners of the filthiest dens commanding monopoly rents are to be allowed under a compulsory sale to value the profits of their own wrong. The principle of 'Laissez-faire' has never been extended to prevent us from prohibiting the sale of noxious food. It cannot be invoked to forbid the valuation of house-property according to its value for legal use, and for legal use alone. It remains for the State to define what, looking to the requirements of health and the prevention of crime and immorality, such legal use shall be. Whatever action the State may ultimately take, it is to be hoped that while the duties of the community are enlarged on and pressed, the duties of individuals, and the propriety of enforcing them, may not be neglected.

The general question is obviously too large for treatment on my part to-night, and there is a certain inconvenience in dealing with a topic of such grave importance in an incidental manner; but looking to the interest it excites, and the degree to which the principle of Government interference is sure to be discussed in connexion with it, some allusion to it was indispensable.

Let me resume the thread of my argument. I have placed before you the principal causes which I hold to have influenced the judgment of the public in its attitude towards 'Laissez-faire.' I shall not attempt in the short time still at my disposal to examine, as to each class of the new demands for interference, to what extent they may be based on illusions, or to what

ultimate risk compliance with them may expose the community, or in what cases paramount reasons may justify such compliance. But I cannot conclude without asking you to consider some of the general difficulties and dangers which beset the course on which the public is electing to travel, apparently with a light heart, certainly with a confidence which, if justified at all, must be justified by the existence of totally new conditions, and of a much purer and more perfect atmosphere of national life than other ages and other countries have ever enjoyed. For all historic experience tends to show that the very gravest misgivings may reasonably be felt as to the success likely to attend our new departure.

I have spoken of difficulties and dangers. By difficulties I mean impediments likely to prevent the methods proposed from meeting the objects towards which they are directed; by dangers I wish to indicate the risks of evil consequences, even on the assumption that the new methods do effect what they propose.

To what extent can Government be expected to carry out efficiently the constantly increasing work put upon it? To what ultimate powers and influences do you look for the performance of the work? Of what character are the instruments to be employed? Such are some of the first questions which suggest themselves. Is there no fear that the Government may be overworked? Is there experience of any Government having succeeded in giving satisfaction under such conditions? A very robust faith in the working machinery of the Government departments is required to believe in the possibility of such success. And see what happens! As I have explained before, the democratic spirit does not object on principle to

the performance of vastly increased duties by the State. On the contrary, it demands it, and it has confidence in the ultimate controlling power, which is the Legislature—that is to say, itself; but when we come to the execution of the work decided on by the Legislature, the democratic spirit does not feel confidence—on the contrary, it is exceedingly critical of all acts of the Executive, and we are confronted by the difficulty of an Executive summoned to all-pervading duties, but with agents who receive little popular support. The public demands inspection, but too often denounces the inspectors; the public demands regulations, but chafes at the red tape employed in carrying them out; it legislates for watchfulness on the part of the State over the shortcomings of local authorities, but nothing is more unpopular than the activity of central agents; it demands organizations which require the appointment of vast numbers of clerks, yet the deficiencies of Government clerks, and the expense of their salaries and pensions, furnish endless food for popular declamation. Theoretically, the Executive Government is the all-wise and benevolent agent of the community, with an eye which is everywhere, and an untiring arm. Practically, in its working capacity, it is a body of over-worked, much-criticized gentlemen who are not trusted half as much as they ought to be.

But let us look a little further and consider the Government, not only in its working capacity, but in the widest meaning of the term, as the body which wields the supreme powers of the State.

Consider what conditions are demanded. A central Government free from jobbery, nay, even free from the suspicion of jobbery, absolutely just between class and class, free from bias or leaning, dependent on the

will of the people—for that is the first condition of its being trusted with such extraordinary powers—yet steady and regular in the impartial performance of duties deeply affecting the interests of those on whom their continuance in power depends. Let us probe this matter to the bottom. Who is the State? What is the Government? What is the central authority to whose hands such vast interference with natural liberty is to be confided? It is Parliament and its creature, the Government of the day. What is Parliament? The representative of the majority of a certain year; the expression of the public will at a certain date. And this is the body which, stripped of conventional expressions, is to fix new relations between classes, and give a fresh direction to and control the currents of our lives. See what we are doing! We are distrusting classes separately. We are acting on the assumption that their self-interest imperils social aims which we have at heart, that they are not to be trusted even when notified of the demands of the age; but that inspection and regulation and positive enactments are to clog them at every step, to be present at every contract, and to watch over the fulfilment of every duty. But while we thus proceed on the policy of distrust, we are to have unbounded confidence in successive decisions of Parliamentary majorities.

The State is a noble expression. The idea of the social body politic suggests even higher thoughts. But the homely reminder that the active force of society in its ultimate action is nothing more than the result of a heated electoral contest drags us down again to earth. We may doubt whether society as an active force will be so infinitely superior to its component parts; and if a grave mistake should be made, if, when the era of State Socialism is further developed,

we should find that the legislative and executive bodies are not infinitely freer from the imperfections and shortcomings of our common nature than history gives us any right to anticipate, the nation may regret having exacted almost superhuman duties and superhuman virtues from bodies essentially human.

Again, even if we grant an admirable central Government, do we not run a serious risk, in a vast number of cases, of weakening individual responsibility to such a degree that what we gain on the one side we lose on the other? I have spoken of the Merchant Shipping legislation, where an immense effort was made to diminish the loss of sailors' lives by Government control. I regret to say that there is no evidence of success. All concerned have worked heartily to secure it; but I am informed that, so far as the returns furnish evidence, the result is *nil*, or worse than *nil*. The returns as to ships laden with coal, grain, and timber, as to which Legislative Committees and Commissions and the Board of Trade have made special rules and provisions after elaborate inquiry, are disheartening in the extreme. We have cut down individual responsibility, and the State has failed to do better. I submit that one of the lessons to be learned from a case such as this is, that we should exhaust every means of enforcing personal responsibility before we substitute public responsibility. Remember, they cannot coexist in equal force. If a ship is passed by an inspector, and goes to the bottom, the ship-owner, if brought to book, pleads that he has satisfied the inspector.

Such are some of the difficulties besetting the accomplishment by the State of the purposes for which its aid is invoked. But even if Government action is partially successful, it is absolutely necessary

to consider the drawbacks and dangers to which it may lead. Remember, for instance, the question of cost. As Mill says, 'There is in almost all forms of Government agency one thing which is compulsory, the provision of pecuniary means. These are derived from taxation, and the objection necessarily attaching to compulsory contributions is almost always aggravated by the expensive precautions and onerous restrictions which are indispensable to prevent an evasion of a compulsory tax.'

It is incredible to what extent this fact is lost sight of. Increased work means increased cost, and the consequent imposition of new taxes or the retention of old ones, which would otherwise be repealed. It is clear as day that, as a set-off to the advantages secured, we must weigh the disadvantages which increased expense involves. No sensible man can ignore the fact that an immense proportion of the augmentation in the Civil Service Estimates is simply due to the new duties imposed on the State. Every succeeding Administration is accused of increasing our national expenditure during its term of office. Heavy indictments are launched to and fro, and as a matter of fact it is perfectly true that, notwithstanding the sternest resolution to keep the estimates down, every period of five years witnesses a larger demand on the public purse. How can it be otherwise? Regulation and inspection cannot be conducted gratis. New departments of control are organized at considerable cost, and new branches of business are undertaken which may involve loss for a lengthened period. Yet little notice is taken of such items. The gross cost of Government is held up *ad invidiam* whatever party may be in power. Amongst politicians it is the custom of the trade to denounce the aggregate

expenditure. Yet the growth of this expenditure does not arrest for one single moment that demand for State action which costs so much. The increase in the burden of the tax-payers does indeed demand most earnest watchfulness, but it should be considered when the Government is asked to perform fresh work. The intervention of the State for the purpose of control does not end in the organization of the necessary staff. Further intervention is required to raise the funds. If the taxes collected are a discouragement to trade and an incubus on capital, if they hamper industry, diminish comfort, handicap the English workman in his competition with foreigners, and compel interference with absolute freedom of trade, let us be rational and just and candid. We pay in such discomfort and disadvantage the price of that Government action which in so many different ways public opinion demands. It is a very expensive luxury when such action is not indispensable. It is a very costly necessary when such action is absolutely unavoidable. Extensive ramifications of State interference mean heavy taxation, with all its attendant evils and abuses. Light financial burdens are incompatible with heavy public work. The good must be weighed against the evil. The good may weigh much heavier than the evil, but the evil is there.

Consider, again, the effect of the conduct by the Government of large industrial undertakings, not only from a purely financial point of view, but from that of consequential additional interference. Monopolies are hostile to inventions and improvements and substitutes. Their success is imperilled when new forces of nature are pressed into the service of man to perform rival functions; but a monopoly is frequently indispensable to protect a Government business against

loss. Consequently the dilemma arises, either that a particular business must be protected by monopoly, which is injurious to the development of other promising agencies, or the general tax-payer must be mulcted as a set-off to the benefit derived from that Government monopoly.

Sometimes the public is ready knowingly to risk financial loss for the sake of a cheap and convenient service. I call to mind a late striking instance where it demanded such a service in spite of the protest of the responsible department. Personally I should consider such a course as being questionable as a precedent, but arguments based on the creation of bad precedents are almost as unpopular and out of date as arguments based on the neglect of previous warnings. Such general considerations count for nothing nowadays. Still, the question as to the bearing of State interference generally on our national finance is, I hope, sufficiently practical, present, and pressing to secure grave and constant attention.

Another objection to the extension of Government interference is of a more insidious but not less real character. Every additional transfer of duties to the State saps the belief of the community in the value of natural liberty. For instance, if the protection of one class of individuals is entrusted to a public department, no sooner do difficulties beset another class than similar protection is invoked. Every calamity which occurs, every shortcoming discovered, constitutes a case for fresh interference. The conviction that self-reliance and the conflict of interests are elements of power and success, is weakened at every turn, and public opinion discharges individual responsibility from its duties in one department after another of our social life and industrial business. Then,

further, new claims are established. If Government have interfered in favour of one set of interests, other interests will clamour for similar favour at the hands of the State. The reality of such dangers can scarcely be denied, and the risk is heightened by the obvious difficulty of retracing steps taken under such conditions. It is one thing to place a trade or a class under State protection. It is a very different thing to withdraw it, especially if moral considerations have prompted the original act. Trade might long be paralysed, capital expelled, wages lowered, and the national interests generally prejudiced, before it would be possible to repeal a system of Government control, even if condemned as a failure, in favour of the restoration of natural liberty. Once pass a moral condemnation on 'Laissez-faire' in any particular case, and its rehabilitation becomes an almost hopeless task.

Consider a further element of risk. Much of the new business imposed on the State relates to what may be called a kind of arbitration between classes. The State is to hold the balance, and to fix a standard for bargains, to provide rules for the conduct of business. It is to check self-interest by the curb of Government control. But, as I have said before, the State resolves itself ultimately into a Parliamentary majority, and it is from this majority that we are to look for that judicial impartiality undisturbed by passion, that superiority to selfish interests, that purer standard, which are to cure the wicked ways of natural liberty.

Once more, permit me to invoke the authority of John Stuart Mill:—

'Experience proves that the depositaries of power, who are mere delegates of the people, that is of

a majority, are quite as ready, when they think they can count on popular support, as any organs of oligarchy, to assume arbitrary power and encroach unduly on the liberty of private life. The public collectively is abundantly ready to impose not only its generally narrow views of its interests, but its abstract opinions, and even its tastes, as laws binding upon individuals. And the present civilization tends so strongly to make the power of persons acting in masses the only substantial power in society, that there never was more necessity for surrounding individual independence of thought, speech, and conduct with the most powerful defences, in order to maintain that originality of mind and individuality of character which are the only source of any real progress, and of most of the qualities which make the human race much superior to any herd of animals. Hence it is no less important in a democratic than in any other Government that all tendency on the part of public authorities to stretch their interference and assume a power of any sort which can easily be dispensed with, should be regarded with unremitting jealousy.'

I know what is thought at the present day of such generalizations. They have lost much of their authority. Indirect benefits are seldom allowed to weigh in the scale against immediate profit. Abstract principles are more and more being abandoned in favour of whatever may at a given moment seem to answer a given purpose, and eternal truths have ceased to command any practical faith. Believe me, there is danger in the excess to which this scepticism is carried; there is danger and folly in neglecting or denying 'tendencies.' It is all very well to scoff at laws of nature, and to degrade the term 'common sense' by placing it in opposition to the assertion

of principles which, if rightly appreciated, cover the teachings of common sense as well as of scientific law. It is all very well to invoke the aid of common sense to justify men in framing their opinions simply on the temporary circumstances of the moment, to the exclusion of far-sighted considerations of future results. But this habit of mind appears more than ever dangerous at a time when the nation is embarking on new social questions, and when, if ever, we have need of the steady aid of principles and of the knowledge gained in the world's history as to the bearing of certain tendencies on the ultimate shape of events.

One last general remark I should wish to be allowed to make. I have spoken throughout of the central Government or the State, but the central Government is not the only agency, nor always the best agency, by which the community can give effect to its wish of exercising control. The original powers of control can only be derived from the central Legislature, but a large proportion of public work is performed by local bodies. So far as the objection to the substitution of public for individual responsibility is held to be valid, it holds good against the action of the community, operating through a local body, as much as against the action of a central authority; but the more work in the way of public interference the country demands to be performed, the greater in my opinion is the necessity of transferring to local authorities as large a proportion as possible of public functions. Such a transfer promises incalculable advantages. It diminishes *pro tanto* that extension of central power and patronage of which I have said little, but which is a most undesirable accompaniment of increased Government action. It reduces the number of the army of men whom the

central authority is compelled to employ. Secondly, it eases the work of the Government—a great gain in view of the certainty that if, as is but too probable, the Government is overworked, many of its duties will be ill-discharged. Thirdly, it distributes weight. It imposes public functions on a different class of citizens. It interests an additional stratum of society in public business. And lastly, it provides to some extent a safety-valve against possible overbearing tyranny on the part of an all-powerful class. If the community is in many cases to encroach on the limits of individual independence, it is, at all events, an advantage to split up the community into many fractions in the discharge of its self-imposed obligations. Strong local bodies, firmly rooted in public esteem, are an invaluable bulwark against the dangers arising either from the caprice, or the impatience, or the imperiousness, or the jobbery of a central authority. If the extended demand for Government interference is to be progressively satisfied, it is earnestly to be hoped that we may proceed *pari passu* on the lines of decentralization.

I have endeavoured, as far as lay in my power, to observe an impartial tone in the examination which I have made. I do not wish to be understood to be a blind and unreasonable champion of 'Laissez-faire' under all circumstances. 'Laissez-faire' has suffered in reputation, because its advocates have often pushed its claims on public favour to extremes. I have wished to avoid that error, and I have not failed to recognize the honest, well-intentioned, and often noble aims which have inspired the accelerated pace of legislation and of opinion towards extended Government interference. The awakening of the

public conscience in respect of many deep-rooted evils in trade and society, in the relations between classes and the treatment of individuals, has rendered most signal service in raising the standard of morality, and in showing sounder and safer paths of duty. Whole classes have been roused to the knowledge that their conduct of affairs in certain respects was below what the age demanded of them. Sometimes the paths of duty become overgrown with weeds, and he who passes daily along them does not perceive their gradual growth. But when the outer public are let in, and complain that the paths are not properly kept, the owner himself is as keen as the public to uproot the noxious growth. The discovery of evils and abuses demanding a remedy is not always a justification for substituting an entirely new organization, and for withdrawing responsibility in favour of regulation. When we contemplate with satisfaction the greater care for the security of the employed, the greater solicitude for the mental and moral welfare of children, the anxiety for sanitary improvements, the desire for better house-accommodation for the poorest classes, the efforts in the cause of temperance, the sympathy for the suffering of dumb animals, and generally the struggles of the philanthropist and the social reformer for the elevation of the masses in comfort and refinement, we shall not be relieved of the necessity of considering the efficiency of their methods, because their aims are high and pure. We shall ill serve the common cause of increasing the sum of human happiness by ignoring dangers which surround the execution of even lofty purposes. Nor for the sake of quick and palpable reform is it always right to compromise the future. The flattering aspect of an immediate improvement must not blind us to

sowing the seeds of future danger. We might sap for ever the self-reliance of a class in order to remove some present abuse which other methods might even more effectually remedy.

The dangers in the road of social reconstruction under Government control are so grave that they can scarcely be exaggerated; dangers arising, not only from the serious chance of inefficiency in the methods chosen, but from the transfer of responsibilities, from the establishment of national law in the place of individual duty, from the withdrawal of confidence in the qualities of men in order to bestow it on the merits of administrations, from the growing tendency to invoke the aid of the State, and the declining belief in individual power. I press these risks on you as citizens as well as economists. We cannot see universal State action enthroned as a new principle of government without grave misgivings. Your ideal will not be that of a time when the whole duty of man would be edited in bulky blue-books, and when due preparation for an inspector's visit would represent the discharge of all obligations and the fulfilment of all claims.

Let us hope that in the State Socialism of the future, to which some thinkers suggest we are drifting at no slow pace, room will still be left for that self-reliance and independence and natural liberty which, if history has taught us anything, are the main conditions on which depend the strength of the State, the prosperity of the community, and the greatness of nations.

ETHICS AND ECONOMICS

Introductory Note.

Though the following address was delivered before the British Economic Association, it was not intended to be a contribution towards the elucidation of abstruse problems, or a scientific statement of economic principles. It was submitted as a popular argument for the less-instructed, in whose minds the idea that between ethics and economics there is something fundamentally antagonistic was, and is, almost ineradicable. Notwithstanding the disclaimers and explanations of its professors, Political Economy has remained under a kind of moral ban. In 1893 (the date of the address)—just as now when special causes aggravate the general attack on the science—it appeared to be a duty which could not be performed too often, to emphasize what cuts at the root of much misunderstanding—the distinction between the theoretical hypotheses and abstract formulae on which it was originally founded and built up and its *applied* and practical side. As stated in the Preface, I had turned my attention, while engaged on the discussion of economic subjects, rather to the analysis of actual phenomena than to the examination of purely scientific doctrines. Hence illustrations and expositions which might appear trite to those who were familiar with the true character and history of the science seemed, in my judgment, not to be without their use. In the preceding essay I had dealt with this question as

illustrated by various phases in the perennial controversy between 'Laissez-faire' and Government Interference. In the following address I covered a somewhat wider field. Starting from the deeper contrasts between the hypothetical 'economic man,' created for the purpose of scientific study, and the hypothetically perfect altruist, I attempted by some simple illustrations to contribute to the exposure of the too popular fallacy that in the affairs of actual social life, social emotionalism is altruistic and Political Economy the reverse.

I venture to think that if in an earlier period the sterner doctrine of the uncompromising economist required to be modified by the invocation of influences flowing from ethical considerations, the suggestion is permissible that in the present day the risk is in the opposite direction, and that it is the duty of those who direct public opinion to be constantly on their guard lest immutable principles should be forgotten under the short-sighted, if creditable, pressure of a too impulsive philanthropy.

ETHICS AND ECONOMICS

PRESIDENTIAL ADDRESS DELIVERED BEFORE THE BRITISH ECONOMIC ASSOCIATION, JUNE 14, 1893.

IT was a rash step on my part to accept the presidency of this Association, embracing as it does so many eminent economic writers and thinkers of the day. Looking at the little time which of late years has been at my disposal, and the little opportunity afforded me of keeping up with the progress of economic inquiry, I can hardy claim to appear in any other character than that of an amateur. But if my acceptance of the presidency was rash, it was still rasher to undertake to deliver an address on Economics in the presence of so many distinguished professors of that science. How can I steer clear of pitfalls when I have not had time to master the successive stages of economic controversy, or to saturate myself with the manifold literature of the subject? You must, therefore, take me as one of the οἱ πολλοί as one of the general public, deeply interested indeed in all these subjects, but acquainted with them rather from the practical, political, and social point of view than from that of the scientific student and philosophical investigator. Thus I may perhaps be permitted to take some liberties. I may, for example, hold myself absolved from dealing with definitions; I shall try to avoid the use of terms of art, and I must ask professors to forgive me if I put the upshot of their elaborate investigations into simple and, possibly, un-

scientific language. What I am anxious to do is to contribute to the popular understanding of some of your doctrines, and if I can say nothing to economists but what is obvious, perhaps I may make some practical suggestions in opposition to the many false conceptions which in the popular mind still to a perilous extent surround the teachings of our great science.

A large section of the untutored community rejoiced some years ago when they were told by a very high authority that political economy had been exiled to another planet. It was a fancied collision between economics and ethics which played a conspicuous part in the deposition of the teachings of the sterner science from their place of sovereign principles. Not that this was the only cause; the failure of the older system to secure what the working population considered should be their fair share in the distribution of wealth no doubt hastened the catastrophe, if catastrophe it was. I wish I had the knowledge or capacity, as well as the time, to give my own impressions from the popular point of view, of the gradual rebellion of public opinion against those doctrines which at the beginning of the second half of the present century seemed absolutely unassailable. Economic writers have treated the development of this movement historically and scientifically. But the subject is so vast, and enters so deeply into all relations of the social organism, that something still perhaps remains to be said of the gradual changes which, socially and politically, have often been observable in the application and non-application of economic theories to the demands of public opinion, and their translation into legislative enactments.

I made my first plunge into economic questions,

I think, in the year 1852, and I still retain vivid recollections of the first revolt against the doctrines of Mill, whose influence in this department of human thought it would be impossible to exaggerate. Mill was then in the plenitude of his unquestioned authority. Youthful audacity was then, as now, sceptical in many directions; but to doubt or assail the doctrines of Mill was the *anathema maranatha*, the unpardonable heresy of those my student days. One exception, however, there was to this submission to authority. There was one amongst us who attacked Mill's cardinal position. We mocked at our friend. We used to declare that this bold assailant dealt only in verbal puzzles, but he was very persistent when he could get us to listen. Still he made no way. This iconoclast was F. D. Longe, who may be reckoned as ultimately the first successful assailant of Mill's wage-fund theory. Undeterred by his want of success in persuading his friends, Mr. Longe tried the public, and launched a pamphlet. But it was not until Thornton took up the cudgels that the position was carried. I mention this incident as an illustration of the difficulties in the fifties of making any impression on Mill's creed. Every attack seemed a forlorn hope. Since then what a change have we seen, what havoc amongst doctrines of the orthodox school! But when I say 'havoc,' I do not necessarily mean an exposure of fallacies. On the contrary, there has, I am convinced, been much rejection of valuable and inexorable truths. But authority has been lost, and we now find ourselves in the midst of economic anarchy, and engaged, not in a duel, nor even triangular duel, but in the midst of conflicts waged by upholders of many sets of doctrine, none of which has succeeded in attaining a position of absolute recognized supremacy.

Amongst the various phases of this many-sided conflict none have been of more interest to the general public than the alternately advancing and retreating tides of ethical and economical forces. To me this appears to be the most important of all these conflicts in its practical bearings. If political economy has suffered exile, it was in the main an ethical school which pronounced the sentence. Of course when it is said, and apparently with some truth, that political economy has been banished, what is meant is that the set of principles which have hitherto been accepted as absolutely authoritative, was banished. The science itself is always amongst us, and cannot be banished. It is the science of wealth—the science of the production, the distribution, the consumption of wealth. It may be discredited or neglected; it may pass from the hands of eminent economists, and degenerate in the hands of quacks, heretics, economic infidels, and impostors; but concerned as it is with matters of universal interest to mankind, it cannot permanently disappear.

Thus it is not as regards the science itself, but as regards the principles which were held by the economists in the middle of the century—I have not time to define them—that we have to ask whether sentence of banishment was justly pronounced. And again, is the banishment permanent, or may the time not come when the exiles, purged of the sins, if any, which they countenanced, and missed as useful allies in promoting human progress, may fitly be recalled to render service once more, and to be utilized in modifying that younger, that more ethical, teaching which, if allowed to run riot without the sober, unimpassioned influence of the older school, might in its turn be discredited and be refused even that infiuence which it deserves?

First, then, were the older principles justly relegated to a distant planet? I think they suffered to a great extent from misunderstandings and misapprehensions, partly brought about by the fault of the economists themselves, and partly by the incapacity of the public to understand analysis and hypothesis. The political economist was supposed to have presented man as influenced by self-interest alone—self-interest as the safest guide to the wellbeing of the community—competition as the most praiseworthy form of human activity, and the best stimulus to human motive. Few economists would have accepted this description as correct, though in the case of some it does not diverge far from the truth. But the positions taken up were partly the result of a process of subtle analysis, and still more the result of hypotheses scientifically and most legitimately employed. Need I recall how human motive was analysed by the earliest economists, beginning with Bentham, from step to step, and was found by a chain of reasoning ultimately to eventuate in every case in an effort at self-satisfaction? Hypothesis, on the other hand, played its part in eliminating a vast number of subsidiary influences. The result was 'economic man'—not a human creature, but a hypothetical monster, created for the purpose of scientific study, and intended in some respects to be put to the same uses in the inquiry into economic problems as the use to which a skeleton is put by a physiologist. The picture of this hypothetical economic man jarred on the senses of the unlearned multitude—they mistook the study for the ideal. Whilst many sciences dealing with inorganic nature or with lower organizations have by their splendidly accurate processes of analysis procured results which are accepted without question, similar

processes followed by economists frequently prejudiced rather than promoted the acceptance of their results. Not only is the analysis itself frequently open to question, but every one is apt to test it by his own experience, and that experience is often calculated to damage the science in popular opinion. The analysis of human motive does not come home to the individual student, it does not convince him, like analysis in the domain of physical science.

Secondly, the economist does not fare much better when he uses the method of hypothesis, but here he only shares the common fate. How many public men have not suffered from the use of hypothesis and illustration? They argue hypothetically, they strengthen their argument by illustrations; but the public is extremely literal, and the hypothesis is fastened on the speaker as a statement of his own view, and his illustration is treated as if it were simply a statement of fact. Those who wish to convey their meanings to the multitude should beware of arguments founded on hypothesis. The scientific assumptions of economists, necessary and most useful as they were for learned investigations, have without doubt seriously prejudiced the reputation of some of the most valuable economic truths.

But let me return to economic man, the creature of hypothesis and analysis. Supposed to be the ideal of economists, he has hindered the acceptance of some of their most far-reaching teachings. The alleged presentation of the influence and operations of universal self-interest, repudiated and modified as they have been, nevertheless has caused immense damage to the whole science, damage which all of us interested in the science must endeavour to repair—damage not with the learned, but with the multitude, on whose

instincts the principles jarred, and who were only too ready to denounce motives which in themselves did not appear noble, and which in their own case did not appear to have produced that wealth, the furtherance of which was, even in the mouths of their champions, their main *raison d'être*. Thus sentimental and material considerations combined to make war on political economy. Its assumed neglect of ethical motives jarred on the conscience; its assumed success in the production of wealth did not satisfy the workers. The teachings of political economy, they said, may have been eminently successful in producing wealth. Your much-praised system of cruel competition may have triumphed in that direction, but it has failed to establish an equitable system of distribution. Under influences such as these, political economy was said to be the science not only of wealth but of the wealthy, and this prejudice soon prevailed against economists in general. But it was most unjust as regards Mill, for we all know how he treated the question of the distribution of wealth, and with what tender solicitude he looked at the influence which his teaching in that direction might have on the working-classes. However, I will not enter into the general question of the distribution of wealth. My point is not the success of economics in producing or distributing wealth, but of keeping on terms with ethics. The difficulty is not inconsiderable, for the very definition of the science has damaged political economy—namely, its definition as the science of which wealth is the subject-matter. Wealth in the mind of the masses was one thing; wealth in the mind of economists was a widely different matter.

The terms on which ethics and economics may meet, and must act and react on each other in intimate rela-

tions, appear at once if we recall the true definition of wealth, which includes non-material as well as material wealth :—'Human energies, faculties, and habits, physical, mental, and moral, which directly contribute to make men industrially efficient, and therefore increase their power of producing wealth. Manual skill and intelligence are included in the personal wealth of the nation.' Here, then, is the ground on which ethics and economics meet and aim at the same result. Here lies the duty of economists to work in with other ethical influences. The science of wealth cannot disregard the moral habits of a people, nor neglect the development of its intelligence. Thus economics in one sense are strictly ethical. Let the beginner as he approaches political economy thoroughly understand that he is entering on a science which does not ignore ethics. Let the working-classes understand that the science includes the moral, physical, and intellectual development of the people. The field of economic study is thus indefinitely extended, and economics will have to be classed amongst the moral and social sciences. It will thus be understood how ethics on their side, pressed into the service of economics, have promoted the increased productiveness even of material wealth. Thus, from a broad point of view, economics are not to be cried down as a non-moral science moving on a lower plane and with lower motives. They work towards civilization and morality, even if it be for their own ends. Enlightened self-interest may be so utilized as to be found to go hand in hand with motives from which it is believed to be entirely absent. I fear, however, that the popular prejudice against political economy will not be removed by such an account of the possible co-operation between ethics and economics. It holds them to be in frequent collision and contra-

diction, and believes economics to favour, inculcate, and urge the furtherance of production and material wealth against what are called higher motives and considerations.

It is not difficult to discover the influences which produced and fostered the feeling which I have just described. The conscience of various sections of the community had been roused by the sight of many abuses. The shortcomings of the present system of society began to be more fully realized, and a strong development of genuine altruism set in. The reaction was against selfishness, and that not so much against selfishness as taught by political economists, but as it actually existed in the world. In an address which I delivered at Edinburgh in 1883[1] I alluded to an awakening of the public conscience as to the moral aspects of many sides of our industrial arrangements—rising doubts, less as to the efficiency of existing organizations for producing wealth than as to their compatibility with the humane requirements of improving civilization. The existence of facts previously unknown or ignored had been revealed in striking colours, and emotions roused which demanded the application of immediate and direct remedies. I stated my belief that the principle of 'Laissez-faire' had lost favour, chiefly owing to moral considerations, to the assertion of the claims of other than material interests, and to a growing feeling that it is right deliberately to risk commercial and industrial advantages for the sake of reforming social abuses and securing social benefits. It is this development of the ethical side of public opinion—this awakening of conscience—which, in itself so highly satisfactory from the social

[1] On 'Laissez-faire and Government Interference,' reprinted in this volume.

point of view, has contributed very unfortunately and unjustly to discredit political economy because of its supposed collision with moral considerations.

Let me examine the cause of this supposed contradiction. It is of the essence of the case; it suggests the most valuable practical points. To a great extent the apparent contradiction arises from the different modes of considering phenomena practised respectively by the man swayed directly and strongly by ethical considerations, and by the economist.

I must find a shorter name for the former class. Neither sentimentalist nor philanthropist altogether answers the purpose; let me therefore use the term 'emotionalist.' The emotionalist is influenced by the impression made on him by what he sees and feels—the visible, the palpable, the direct. The economist looks beyond—not at the present only, but at the future—and is swayed not only by the visible and the direct, but by the invisible, the more remote. The one is mainly impressed by the fact, the other by the consequence of the fact. The economist is not less philanthropic, not less altruistic, not less concerned with the greatest good of the greatest number; nay, rather, the emotionalist may be said to be more individualistic, whilst the economist ranges over a wider field. There is no field of sympathy, no department of human feeling or social obligation, which does not come within the range of the economist. The emotionalist is moved by an immediate impulse at the sight of poverty to indulge in charitable relief, and that charity is often exercised without discrimination. No one will blame him. But it is the duty of the economist to point out the indirect and invisible effects of such action; and this information is needed in the interests of a wider community than that to

which the charity is extended. And yet, on no field of sentiment, in no department of human feeling or social obligation, has the economist been more attacked as non-ethical than in respect of charity and the Poor Law; and yet his labour has been fruitful of the best results in arresting demoralization and the weakening of self-dependence. The ultimate result of the uncalculated generosity of the emotionalist may be infinitely more disastrous than the evil which in his generosity he tries to cure. Moved by immediate impulses and tender compassion in the interest of individual suffering, the emotionalist is stirred to charitable action which is often called indiscriminate. I say again, who will blame him? Who will not feel sympathy? But it is the stern duty of the economist to point out the indirect, invisible effects of the generous charitable impulse. If tender treatment of an individual pauper, and if an administration of the Poor-Law, founded on ethical considerations alone, should diminish the efforts of self-help, a whole class may suffer ultimately from action taken towards individuals. The many—the community at large—may be hurt and damaged by faults in the treatment of the few. This trite instance must not detain us; but I have recalled it to your memory because the organization of charity and the restricted character of poor-relief recommended by economic science have largely contributed to prejudice it in the eyes of public opinion. Mark that the attitude of the economist is no less ethical than that of the emotionalist—it is more far-seeing, more social. It looks to the good of the community. It is called hard, but it is wise, and it serves the general interest.

But the difficulty increases as we approach the question of wages. Fair wages, just wages—who shall

settle the standard? Learned economists have analysed the word 'justice,' but the result is complicated and agreement difficult. Analysis in this respect is a task beyond the limit of the time at my command; but here, if anywhere, ethical considerations are daily playing a more important part. The standard of higgling in the market is given up. The manufacturer is told that he must no longer bargain for the cheapest labour—not even, as the more enlightened side of political economy would teach, by giving such wages as will secure good workmen and good work. The standard is to be fixed by ethical considerations. The duty of the economist may here be a duty difficult to perform, but one which may yet be of national importance. This matter must be carefully examined; men must not be shouted down. They may consider how difficult it is on this matter to meet the ethical forces—I will not say the ethical arguments—that are brought against them, but they are entitled to issue a warning against what I may call contemporary and immediate egoism. There may be an egoism of the present generation which may ruin the next generation. There may be an egoism which may compromise the prosperity of the succeeding years of our general social system. We must, therefore, be careful not to think merely of present progress whether of capitalist or labourer. The transition is very easy. Let me take one instance. Competition was egoistic: the labourer was not to outbid his fellow. The advice given was dictated by altruism. But the result was apt to develop into what I may call the corporate egoism of a trade-union. I am not using the term in a derogatory sense. There are trade-unions not only among working men, but among all sections of society. These great associations in the end

jealously shut the door against an increase of their members.

Is the system of trade-unionism altruistic or egoistic? The movement may be said to have been an ethical revolt against unrestricted competition. Economic doctrine does not necessarily condemn, and has not condemned, this movement. But it may be pushed to excess, as what movement may not be pushed to excess? How long does it remain ethical? It is certain that trade-unionism may gradually develop into corporate egoism. Altruism may thus take up an antagonistic position to the too exclusive association of skilled labour, and protest against the labourers outside its charmed circle being neglected. Sympathy and sentiment may then gather round the excluded till in course of time they, too, are organized and regulated, and formed into a wider association than those which went before. But economic forces again assert themselves. The dockers, for example, are organized into an association, but soon further unskilled labour presses on their heels. Altruism commands their admission, but corporate egoism requires their exclusion. Does not all this teach us how the philanthropist, the emotionalist, must take counsel with economic forces, under pain of aggravating suffering by his very attempt to remove it? The Socialist 'ethical' man is an hypothesis just as the older economic man was an hypothesis. I am afraid that the one hypothesis will find as little its counterpart in this world of ours as the other hypothesis, and if the economic man is a monster, the ethical man, as pictured by the Socialists, is an angel who will not walk upon this terrestrial globe.

To no practical political economist, and certainly to no statesman, can a proper understanding between

economics and ethics be a matter of indifference. It would be a national disaster if the sober, but surely not 'dismal' science, should be permanently discredited. If it has been banished, as has been said, to a distant planet, let it now be recalled, if not to take up its old position of unquestioned sovereignty—its monopoly of authority—yet, at all events, let it be recalled to be a wise counsellor of the ethical school. A high duty rests upon you, the members of this association; you are performing it in the many works which you from time to time issue to the public. Yours is the task to continue to assert for economics their true position in the world, yours to show that economics are not non-ethical but ethical, yours to curb the rush of the impatient and the gush of the emotionalist, yours to expose the quackeries of impostors, and you will assuredly be performing an ethical service while you continue to be engaged in your noble, scientific, economic work.

INSURANCE: VOLUNTARY OR COMPULSORY?

Introductory Note

I have ventured to include in this collection of articles and addresses the following brief speech which I delivered in 1884 before an audience composed chiefly of working men on the subject of Voluntary as compared with Compulsory Insurance. I have always felt much interest in the organization and work of the large Friendly Societies. In the second year after my entrance into Parliament, that is in 1864, I was asked by Mr. Gladstone, then Chancellor of the Exchequer, to support him in an exciting campaign in which he was at the time engaged against certain societies for the insurance of the poor, whose methods and financial arrangements he had good cause to suspect and denounce. The subject aroused my keenest sympathy, and for some time I gave it much attention. Accordingly, when invited by one of the two greatest and best managed of the Friendly Societies in 1884 to attend the dinner of the 'Annual Movable Committee of the Manchester Unity of Oddfellows,' I gladly complied with their wish. I sincerely appreciated the fine work which had been accomplished by these self-governed organizations of working men. My very hesitation in the County Franchise question to increase the working-class vote in the constituencies lest further strength should be added to the forces with whom doctrines as to the duties of the State and tentatives in the

direction of Socialism were likely to become increasingly popular—disposed me all the more to acclaim the splendid services rendered to the community by the fine example and pervading influences of these self-reliant and successful organizations.

Another feature in the great development of these societies which specially attracted my attention as most wholesome and beneficial to the State, was the fact of their holding vast sums invested in the public funds, thus creating amongst the masses a direct interest in the credit of the nation. As will have been seen by the tenor of other addresses here re-printed, my mind was much fixed during the eighties on the welding together of the interests of various classes by the diffusion of the profits of trade and industry over a wider area, and I saw a further common tie established by the investments of an increasing body of citizens in the public funds.

In some of these respects this short speech may present considerations not unworthy of attention; but I have in this case not attempted to bring incidental points, such as the then position of compulsory State insurance in France and Germany, up to date, partly because it would require more research than I am now able to bestow on such an inquiry, and partly because the intention of my utterances was to affirm and illustrate certain principles rather than to cover historical ground. A succinct and clear account of the progress of legislation abroad, dealing with State insurance during the last twenty years, and with the experience thus gained, would be most useful and interesting; but I must leave it to others to undertake the task.

INSURANCE: VOLUNTARY OR COMPULSORY?

A Speech delivered at the Dinner of the Annual Movable Committee of the Manchester Unity of Oddfellows at Reading, June 3, 1884.

I rise to propose the toast of the evening, 'Success to the Manchester Unity of Oddfellows.' I think I may fairly greet you as a body of associated capitalists, for when I open your Report I see that you who are present to-night, represent a sum of £5,000,000 sterling, while you count some 500,000 members in your Association. I say, then, you are capitalists in every sense of the word. I rejoice to see this union of labour and capital. It is one of the sheet anchors of the prosperity and strength of this country. I understand that 90 per cent., perhaps, of the members of the Manchester Unity come from the industrial classes, and it is to those who represent them here, that is to working men, that Mr. Shaw-Lefevre [1] has been speaking of the rising and falling interest of money, and of the value of the funds. As possessors of capital, such questions now come home to you. In France there are numerous holders of French Consols. In England it is said that the public debt is held by much smaller numbers, but I claim that we may add to those who are interested in our public funds the members of this great Society, who are capitalists by virtue of their

[1] Mr. Shaw-Lefevre had addressed the meeting just before me.

investments, and who are deeply interested in the credit of the State. Watch over that credit of the State. To you, representatives of the working-classes, that credit is no light affair. You hold largely in the public funds, and I would ask all those who are interested in the credit of the State to beware of a new kind of extravagance which will run the older forms of extravagance hard—the extravagance of lending the credit of the State right and left for any and every purpose whatever. As tax-payers you will naturally be careful in respect of extravagance of expenditure, but, as fund-holders, you must watch extravagance in wasting the credit of the State.

I have called you an association of capitalists; but for what purpose are you associated? You are associated for the purpose of promoting self-help and mutual help in time of sickness, and in times of accident and pressure. That is, as I understand it, the chief object of your Association. Differing in many points from the ancient guilds, yet in many senses you are their modern but truly English representatives and successors. You are not their direct successors, for there was an interval in time between the dissolution of the guilds and the establishment of Friendly Societies; but you have succeeded to many of their functions, you have succeeded to many of their rights, and to many of their duties. The guilds had two functions. They, as you do, protected their members in sickness and old age, and helped the orphans when the bread-winner had died; but they also had a further function. They protected the members of the fraternity who in their old age fell into trouble, and one of their most important functions was the regulation of their work and their craft. Well, the guilds were dissolved, and for a certain time in our

industrial history the workmen practically stood alone. Nor was it by the dissolution of the guilds alone that the poorer classes were deprived of help on which they relied in bad times. The religious houses, from which a stream of charity had been wont to flow, were closed; and though the organization of the Poor Law was established, it cannot be said ever to have taken the place, or to have been intended to take the place, of the organization, which, in the Middle Ages, had been specially constructed for the protection of the industrial classes. And so, as I say, the workmen stood alone. But a mighty movement was in progress nevertheless; it was the emancipation of industry from the fetters which had tied it down to the parish and to particular crafts, and which prevented that free development of labour which is one of the boasts of the present century, and of England in particular. New difficulties surrounded the workman; he had to hold his own; he was alone, but he was free; the shackles were struck off from labour, and industries were carried on without the fetters which had been for ages imposed.

But the instinct of association, if latent, was not extinct. The need of association was felt in a thousand ways, and the need for association, after a time, again led to the formation of two great groups of associated workmen. It led to the formation of Trades-Unions, and it led to the formation of Friendly Societies. The work was divided between these two great groups. The Trades-Unions took up that part of the work of the guilds which was a kind of protection to labour, and the Friendly Societies took up that part of the work of the guilds which afforded assistance, mutual assistance, self-help grounded upon mutual help—for that is the corner-stone of Friendly Societies.

Fortunately, in this country, legislative attempts to prevent the free association of workmen failed of their object, and the laws in which those attempts were embodied were ultimately repealed. On the Continent the suspicion as regards workmen's associations was more successful in restricting their action, and the restraints which checked them may be said to continue to this day. In England that spirit of association which belongs to the Anglo-Saxon race, has triumphed in them, and continues its work unchecked by law, and unchecked by public opinion.

You know what is going on at home, but you may not know what is going on abroad in this respect. If it interests you, I would like to say a word presently with regard to the immense issues which, in Germany, cluster round the question of voluntary and compulsory insurance; but I would like first to mark the difference between the present system and the guilds whose place you have taken. The guilds were local. They were tied down to a particular locality and to particular crafts; and they represented not the union, but the separation of interests. That is not the plan of the Friendly Societies of the present day. You are not local, but you are national. You do not belong to one craft, but to all crafts. You do not belong to England alone, but to the United Kingdom; and not to the United Kingdom alone, but to the British Empire; for you have here among you to-night members of your order from the Colonies—men to whom you will offer a most cordial welcome—men whom the representatives of the artisan and of the industrial classes of England generally, are proud to remember spring from this race, and who are, I trust, lending strength to our empire across the sea. You are national, you are optional, you are free. But there are opinions in the air which

are not antagonistic to the forging anew of some of the fetters which have been struck off our national industries. The State is now called upon again to regulate at every turn. The State again is bidden to encroach upon the liberty of action of various industries, and the State is sometimes invoked even to take upon its hands the gigantic system of the insurance of the industrial classes. I trust that you will not permit that to be done. I trust that in the hands of the representatives of the working-classes the standard of free labour, and free exchange, and free insurance will always be held high.

Bear in mind that on the Continent your brothers have experienced, and are experiencing, a very great difficulty. In France the proceedings of associations similar to your own have been built up on principles very much akin to yours, differing in that respect essentially from what is going on in Germany. In France, as in England, the French societies, called the Societies of Mutual Help, take the place of the guilds, and they grow up without much interference from the State, except so far as French opinion and French legislation are always more timid as to permitting workmen to combine than has been the case in this country. In 1850 the State in France began to regulate their Friendly Societies, but on lines very similar to those which the State has followed here—that is to say, it laid down certain rules which, if followed by these societies, entitled them to certain privileges, such as a right of inheritance, a right to hold land, and so forth. Then came a curious event. The Emperor Napoleon III, who was the representative of democratic despotism, or of despotic democracy, whichever you choose, could not keep his hands off this principle of insurance, which has so much attraction for State

Socialists of every kind, and he spent large sums of money in maintaining working-men's pension clubs, in which they or their employers might insure. He authorized the Prefects and Communal Councils to combine together to establish Friendly Societies when needed, thus acting contrary to the principle of free association for purposes of this kind, which, until then, had been acknowledged in France. But, with this single exception, I cannot find that State insurance has, in practice, made much progress in France. It is true that there is considerable talk of it in these later days, and the late M. Gambetta, in one of his election speeches in 1881, spoke of the expediency, or at all events discussed the possibility, of insurance against the vicissitudes of old age as a compulsory and universal measure; but so far in France this principle has not taken root.

Across the Rhine, on the contrary, in Germany, it has taken serious hold of public opinion. There State Socialism, using compulsory insurance as one of its chief agencies, is becoming one of the burning questions of the day, and the various parties in the State are all at work endeavouring to find a solution for those insoluble problems which are connected with this matter. You would find, if you were to read the literature on this subject, that some very suspicious agencies have put themselves on the side of this State Socialism and compulsory insurance. There is the great Chancellor Bismarck himself. He has become anxious for a general system of insurance. Three laws are now before the German Parliament. One is a law for insurance against sickness, another for insurance against accidents, and a third for the insurance for men who are out of work in their old age. Now, Prince Bismarck is considered to rank among State

Socialists, and I want to point out one of the cardinal dangers of this system of compulsory insurance in its bearing on socialistic projects. It means regulation, and regulation of labour as a whole. You cannot have a system of compulsory State-aided insurance without depriving working men of liberty and of many of the privileges which they enjoy; and I am not surprised to find that a party which is still powerful in Germany —the Roman Catholic party—is associated with the Chancellor, Prince Bismarck, in order to pass measures of compulsory insurance. They scarcely make a secret of one of the objects they have in so doing; they wish to bring back as far as possible the regulation of labour and the system prevailing in the ancient guilds.

You will pardon me if, in an after-dinner speech, I have embarked upon questions of this kind; but, to tell you the truth, they are questions which appear to be deeply interesting to all who are concerned with insurance as practised by the industrial classes, and I should like to put this one more fact before you. During the fifties and sixties of this century—from 1850 to 1872—there was a great emancipating influence at work in Germany. Germany was becoming a united country, and the industrial classes were struggling to become free from all those checks and fetters which prevented them from carrying their labour to the dearest markets throughout the country. They used to be stopped by the innumerable frontiers of the different German States, just as we are stopped by our custom-houses. And it is interesting to observe that the struggle for national unity and for political freedom was carried on together with the struggle for the industrial emancipation of the working-classes. The leaders of that national movement were deeply impregnated with the doctrines of Cobden and with

the political economy of the Manchester school; and when they were working for the unity of Germany and political objects, they were fighting, at the same time, for economical doctrines, for liberty of work and of trade.

But then came a tremendous industrial crisis, and, curiously enough, it was most seriously aggravated and stimulated by the fact that victorious Germany had imported £200,000,000 sterling from defeated France. These enormous sums taken from the vanquished did not, however, assist the prosperity of the victor, but, showered over Germany, produced such changes in industry that it culminated in a terrible crisis throughout the various parts of the empire. That was one of the causes of the crisis, but the operations of the Socialists tended to aggravate it. When the emancipation of labour had brought about free competition, the Socialists and the Catholics and the State Socialists were all against competition; but competition was wrapped up with liberty, and they therefore said, 'Down with liberty if liberty and competition must go together; we will not have either.' So it became a reproach in Germany to have belonged to the economic school. There is no greater sarcasm levelled at those who have so gallantly fought for the emancipation of labour than to say that they belong to the school of Cobden or the Manchester school, and the Socialists, now so numerous in many parts of Germany, think that they can go to work through this principle of compulsory insurance. They know that if they can compel every one to insure, labour must be organized and regulated, and that men must be bound down to particular trades. Then, having got rid of competition, they fancy the world must go back and adopt something like the ancient guilds. They are prepared for

much tyranny, much regulation of labour, in order to obtain these results, but I think that if they proclaimed similar principles in this country, they would not find many among the working-classes who would believe in the doctrine which they preach.

But let me return to the special objects which bring you together to-night. Insurance is your great motto, I understand. We are here to celebrate the position of the Manchester Unity of Oddfellows, which is a great insurance association, and I feel that if the benefits of insurance are valuable to those who have means, they are vastly greater to men who have none. If sickness is a terrible calamity to those who have wealth or even a moderate income, how much more terrible is it when it means that the bread-winner is disabled and cannot provide for his family! How terrible, if death occurs, is the bereavement of the household which has no means, when the sorrow which is common to all classes, is heightened by those intense pecuniary anxieties which the loss of the head of the family must bring with it! And if insurance is so valuable, you, the Friendly Societies, have taught the people to insure, without regulation, without interference, without taking the organization of labour out of the workmen's hands. See how tyrannical the system of compulsory insurance would be! There are many working men who may be receiving sufficient wages to be able to lay by, not only a premium of insurance, but enough to amass a little capital by degrees. A man may say to himself, 'If I maintain my health and strength, I will lay by enough to buy my own house in which I am living as an inheritance for my children, or to sell in the time of need; or I will enter into a small business, and thereby perhaps lay a foundation of a great enterprise, such as has often

sprung up from such small beginnings.' Shall the State say to men like these, 'No, you shall not take your own earnings and employ them as you like, but you shall carry a portion of your earnings to some particular fund for the benefit of other classes. Your individual thrift must not take an individual turn. It must be utilized for common purposes in a common fund. You shall not only be thrifty and lay by, but you shall lay by in that particular method which I shall prescribe to you'? I say that is a tyranny to which the English working-classes will never submit. Other classes in this country would never stand being told that a certain portion of their income should be saved and invested for them; and why should the industrial classes have a certain proportion taken from them for this purpose, however good it may be?

Again, supposing workmen are out of employment; how is the system of compulsory insurance to work? There are a thousand difficulties of detail. But without entering on these let me simply say in conclusion: stand by your own English independence and self-reliance, not only because the other system is tyrannical, but because your own system is free, and brings with it all the benefits which accrue to the country from such a self-governing association as yours. Continue upon the lines on which you are embarked. You call yourselves 'An Annual Movable Committee'; you move about from town to town, and carry with you traditions in order to inoculate other places with the same principles. You learn how to administer, how to govern, how to take an interest in the State, in capital, in everything that affects the State. For my part, I am not one of those who think that you err in another point—in combining sound financial arrangements with a certain amount of good-fellowship as

well as odd-fellowship. There, again, you are the successors of the ancient guilds which were not simply economic, simply industrial, or simply like joint-stock companies, combining for gain. There was a moral and a social element in the guilds; and so among you, I believe, there is a social element and a moral element. You feel bound together in your associations and societies as citizens to citizens, men to men, brothers to brothers. Prosperity, then, to the Manchester Unity of Oddfellows! May it flourish as a school of thrift. May it flourish long as a rampart against Utopian schemes, binding classes together; and as the Parliament of England has been the mother of other Parliaments—as, till lately at least, our habits and ways as a Parliamentary country have gone forth as an example to all our colonies, and to all liberty-loving countries,—so may the example of your self-governing Friendly Societies be a beacon-light to other nations, that they may see what can be accomplished by independence, by optional methods, by that self-reliance which I trust, whatever may be said with regard to the socialistic tendencies of the age, will long continue to distinguish the people of Great Britain and Ireland.

OXFORD: HORACE HART, PRINTER TO THE UNIVERSITY